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Reform

Reform is an independent, non-party think tank whose mission is to set out a better way to deliver public services and economic prosperity.

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Our vision is of a Britain with 21st Century healthcare, high standards in schools, a modern and efficient transport system, safe streets, and a free, dynamic and competitive economy.

Productive parents

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Executive summary

Many working parents struggle to find a balance between family life and work. Parents have to nurture and encourage their children, while also maintaining the skills and capability modern careers require. Too often policy presents these parents with a narrow range of options and either/or choices, which can damage both family life and their chances in the labour market. Government should instead provide parents with the financial means to organise their lives flexibly and give them room to choose what is best for them.

In *Productive parents*, *Reform* puts forward cost-effective reforms to existing maternity pay that make it more flexible and fairer. This would allow parents to mix and match parenting and working in ways that fit their own circumstances.

Current arrangements for parental leave represent a “double crunch” for poor families. While professionals and managers get gold plated maternity benefits and can afford time off, those in casual and low skilled jobs receive the least pay and take the least maternity leave. The lion’s share of the almost £2 billion spent on maternity pay goes to high earners. A banker earning £75,000 is likely to take over six months leave and would receive over £10,440 in maternity pay compared to a full time working mother on the minimum wage receiving £4,553. A part time working mother on £5,000 may well only take three months leave and would receive only £2,104.

Fathers are largely excluded from today’s leave arrangements, with Britain having one of the most old fashioned systems in the developed world. Yet evidence suggests that families are stronger and fathers are more likely to read to children when they take paternity leave. In the current system fathers are treated as at best an irrelevance.

This antiquated system not only creates significant costs for businesses, in red tape and uncertainty, but creates an either/or choice on whether to work or stay at home. Parents on leave are prevented from staying in touch with the workplace or doing occasional shifts and casual work – with the exception of a small number of prescribed “keep in touch” days. Politicians have favoured gimmicks over effective reform. The much trumpeted increase in childcare places masks a huge creep in regulation, a reduction in informal availability and a sharp rise in prices.

Reform recommends a new approach that rebalances maternity pay towards low income families, makes it available to fathers and gives freedom over parental leave. It advocates a much more flexible approach to the workplace by taking employers out of the various state payment schemes and instead allowing employees to work flexibly during the first year – keeping in touch with the workplace as much as they like. And in a time when public finances are tight, these changes could be undertaken within current levels of expenditure, or even with reduced expenditure, and unnecessary bureaucracy abandoned.

1

Stuck in a rut

There are serious deficiencies in the UK's system of parental leave. The basic principle has not changed in the thirty years since maternity leave was first introduced – although sweeping economic and social changes have taken place over this period. Debate is also stuck in a rut. Current proposals for reform largely exacerbate the problems of the current approach (namely the cost and bureaucracy). *Reform* argues that as underperformance not underfunding is the issue, spending is the not the solution.

The current system is not fit for purpose

The debate about parental leave and pay has been dominated by cultural and value judgements, straying from the purpose of the policy. While support for new parents has become an important symbolic issue it is necessary not to lose sight of what the purpose of these policies are. In particular it should be asked:

- > Do they support families and encourage fairness between mothers and fathers?
- > Do they support maternal and child health and well-being through enabling new mothers to recover from childbirth, breastfeed and provide one-on-one care?
- > Do they enhance productivity and skill retention through enabling parents to participate in and keep in touch with the workplace?
- > Do the significant government funds for which they account represent value for taxpayers' money?
- > Do they minimise unnecessary costs and bureaucracy for employers?¹

The current system of support for new parents performs poorly when judged against the questions above. Britain's system is one of the most old-fashioned in the developed world. This creates a culture where fathers are encouraged to be absent from the home and mothers face discrimination in the workplace. Those families most in need of help lose out and employers face growing costs of complying with administrative edicts and of recruiting and training workers. The burden on taxpayers is also increasingly unaffordable with maternity pay alone now costing £1.7 billion a year.

More of the same won't work

Planned reforms to the system of maternity and paternity leave in the UK are to increase paid leave for mothers to 52 weeks (up from 39 weeks paid leave and 13 weeks unpaid) and for fathers to 26 weeks (up from 2 weeks) if the mother has returned to work and had not used her full entitlement. Research has shown that 82 per cent of company directors oppose the extension of paid maternity leave and three quarters of directors believe the proposed extension will discourage employers from hiring women.²

Even those who do not support these proposals still believe the way forward is spending more government money.

In *Working Better* the Equality and Human Rights Commission (EHRC) raised an “inconvenient truth” that public policy on parental leave makes too many assumptions about the choices families make.³ They went on to argue a radical change in parental leave policies is needed and recommended a 10-year strategy for higher levels of maternity and paternity pay, which would cost around £5.3 billion to introduce. This strategy, emphasising greater flexibility to transfer leave, would move to a more gender neutral approach but would fail to address the burden facing employers and the significant costs to taxpayers of these policies.

1 Brown, J. (2008), *Million Dollar Babies: Paid Parental Leave and Family Policy Reform*, Issues Analysis, No. 102, Centre for Independent Studies, Canberra.
2 Start Ups (2006), “Business oppose maternity leave extension”, 30 July. <http://www.startups.co.uk/6678842908177917303/businesses-oppose-maternity-leave-extension.html>.
3 Equality and Human Rights Commission (2009), *Working Better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London.

In *Reforming the UK Family Tax and Benefit System* Professor Peter Saunders recommended restoring tax allowances for dependent children and for non-working spouses and overhauling the tax credits system.⁴ These proposals were estimated to cost between £13 billion and £16 billion before cost savings of around £12 billion. As Professor Saunders noted in this report there is clearly a potential overspend in this package of proposals. Further, the spending in these proposals would not address the failure of assistance to benefit those families most in need of help.

More spending is not the solution

While reviews of family policies often conclude that public spending needs to be increased in some way there is, however, little case for greater total spending on families in the UK. This spending is already very generous.

In 2005 spending on family benefits as a proportion of GDP was the third highest in the OECD – only below that in France and Luxembourg.⁵ At 3.6 per cent of GDP, expenditure in the UK was more than 50 per cent greater than the average of the 26 OECD countries of 2.3 per cent.⁶

There is also already a long list of complex welfare benefits available to families who are expecting or bringing up children (as shown in annex 1). The total expenditure on these benefits is over £34 billion per annum. Simply expanding this expenditure will not address the underlying causes of poor outcomes, with Hakim *et al* (2008) highlighting that preferences are the major reason that parents do not use formal care, not cost or convenience, and that funding for formal childcare is undermining more efficient and popular private care.⁷

Further, the poor economic situation and current spending levels mean that the long-term gap between tax revenues and public spending will result in a long-term trend of rising public sector debt.⁸ The serious hole in the public finances means that any policy initiatives should be evaluated against a high standard of value for money. Initiatives must be revenue neutral or generate cost savings.

A problem of underperformance not underfunding

The growth in expenditure over the past 10 years has been predicated on political discourse that more spending is a “good thing”. While efforts have been made to reduce child poverty, there has also been a lack of cost control and lack of programmes having clear rationales. Money has been poorly spent (with assistance being captured by well off families) and has contributed to inefficiency (families out of poverty but facing welfare traps). The problem of under-funding has been replaced by a problem of under-performance.

Better performing funding would have allowed for a reduction in child poverty greater than that experienced over the last decade for the same increase in expenditure. Better performing funding would also mean that that the increase in poverty that will follow weak employment and wage growth could be more effectively offset. Underperforming expenditure has social as well as fiscal costs.

4 Saunders, P. (2009), *Reforming the UK Family Tax and Benefit System*, Policy Exchange, London.

5 The OECD defines public spending on family benefits as financial support that is exclusively for families and children.

6 OECD (2008), *PF1: Public Spending on Family Benefits*, OECD Social Policy Division, Directorate of Employment, Labour and Social Affairs, Paris.

7 Hakim, C. *et al* (2009), *Little Britons: Financing Childcare Choice*, Policy Exchange, London, p. 19.

8 Bassett, D. *et al.*, *Back to Black: Budget 2009 paper, Reform*, London.

2

The double crunch for poor families

Parenting requires a large financial and emotional commitment. As Professor Peter Saunders has noted a couple with two young children on the average household income would need about £7,500 more each year to retain the standard of living of an equivalent childless couple.⁹ Even these narrow financial costs cannot fully capture the lost earnings and emotional commitment involved in bringing up a child.

It is families on the margins of the labour market who struggle most to finance the costs faced at the beginning of their child's life. However, current policy delivers low income workers a "double crunch" – with the least maternity pay and the least maternity leave. Childcare and flexible working policies introduced favour families in higher earning categories. Too little support is directed to those families that need it most, and too much to those who do not.

Those families out of employment find that the way that benefits and support work is too inflexible to encourage them to work at least some of the time. This crunch on poor families contributes to the UK's position as the divided society of Europe, in which it is relatively hard for an individual to escape the dictates of their parents' background.¹⁰

Maternity pays for career professionals not the low skilled

Low earning mothers receive considerably less maternity pay from the government than high earners.

Table 1: Mother's income from maternity benefits

Length of Leave	Earned Maternal Income		
	£10,000	£20,000	£50,000
Six weeks	£1,884.46	£2,266.92	£5,382.31
Three months	£2,622.82	£3,005.28	£6,120.67
Six months	£4,345.66	£4,728.12	£7,843.51

Note: Calculations include Statutory Maternity Pay, Maternity Allowances, Sure Start Maternity Grant, Health in Pregnancy Grant, Healthy Start Vouchers.

This disparity arises because pay for the first six weeks is based on 90 per cent of the mother's previous average weekly earnings with no upper limit. The remaining 33 weeks are paid at either the standard weekly rate of £123.06 (in 2009/10) or at 90 per cent of the mother's average weekly earnings if this is lower than the standard weekly rate. For example, a banker earning £75,000 is likely to take over six months leave and would receive over £10,440 in maternity pay and add-ons. In stark contrast, a full time working mother on the minimum wage (an annual income of £12,000) with six months leave would receive £4,553 and a mother who works part-time and earns £5,000 may well take only take three months leave (37 percent of women in this group take less than six months) and receive £2,104.

The nature of maternity pay is unfair to poorer families as the income related payment is not subject to any cap. The state is paying for high earning women to replicate their bonuses while those further down the income scale struggle to get by.

Current arrangements only apply to employees who have been working at least 26 weeks for their current employer. These provisions do nothing for people who are freelance, moving in and out of insecure employment, or returning to work after a career break.¹¹ Mothers who change employers while still on maternity pay also lose any remaining entitlement to this pay.

⁹ Saunders, P. (2009), *Reforming the UK Family Tax and Benefit System*, Policy Exchange, London.

¹⁰ Bosanquet, N. et al. (2008), *Shifting the unequal state: from public apathy to personal capability*, Reform.

¹¹ Equality and Human Rights Commission (2009), *Working Better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, pp. 57-58.

The requirement for parents to have worked continuously with the same employer for 26 weeks to be eligible for maternity pay deprives nearly 80,000 parents of this assistance a year.¹² This also means that parents who have worked and paid taxes throughout their lives do not receive government support.

Lower income parents spend less time on leave

Evidence indicates that low earning parents cannot afford to take time off on leave. Surveys suggest that 68 per cent of mothers with a partner in the top income group take more than 26 weeks parental leave, compared with 31 per cent with a partner in the lowest income group.¹³ This compounds the financial bias in current arrangements that favour higher income families.

Table 2: Maternity leave taken by income

Source: La Valle, I. et al (2008), *Maternity rights and mother's employment decisions*, DWP.

Annual Income of Mother	1 to 25 Weeks (%)	26 Weeks (%)	More than 26 Weeks (%)
<£9,750	37	37	36
£9,750-£14,625	15	47	39
£14,625-£19,500	14	37	48
£19,500-£24,335	13	33	54
£24,335-£29,250	13	30	58
£29,250-£39,000	11	24	64
£39,000+	16	18	68

Note: Based on hourly data. Figures annualised assuming a 40 hour working week and full working year.

Low earning mothers lose out at work

Low income mothers are less likely to have maternity leave topped up by employers and are more likely to suffer a lower salary career path as a result of having children. Two-thirds of professional and managerial mothers receive top-up maternity pay from their employers. The proportions are considerably lower among mothers in skilled manual, personal and sales, and semi or unskilled occupations.¹⁴ Around 10 to 13 per cent of mothers in lower skilled jobs indicate that they receive no maternity pay at all, compared to 4 per cent of professional mothers.¹⁵

High-skilled mothers tend to keep their place in the labour market and forgo less income than low-skilled or mid-skilled mothers. Mothers' employment is thus polarising into two groups – mothers with medium and high education whose employment rate is approaching those of men and lower educated mothers whose employment rate is not.¹⁶

Some workplaces are more flexible than others

The Government introduced flexible labour policies with a view to improving parents' ability to manage their work. Again these changes have disproportionately benefited highly educated and high-skilled workers who firms wish to retain them because of the costs of job-matching.¹⁷ Supply side barriers are a major reason for these measures not being extended. These supply side barriers are particularly important for firms (for example those who rely on shift work) that find introducing family-friendly workplace measures costly. In fact when lower skilled workers have the opportunity they are just as likely to use them.¹⁸

¹² *Ibid.*, p. 42.

¹³ La Valle, I. et al (2008). *Maternity rights and mothers' employment decisions*, Research Report No 496, Department of Work and Pensions, London.

¹⁴ Dex, S. and K. Ward (2007), *Parental care and employment in early childhood: analysis of the Millennium Cohort Study (MCS) Sweeps 1 and 2*, Equal Opportunities Working Paper Series, No. 57, p. 16.

¹⁵ *Ibid.*, p. 16.

¹⁶ *Ibid.*, p. 16.

¹⁷ *Ibid.*

¹⁸ *Ibid.*

Counting the cost of childcare

Since coming to power the Government has been committed to delivering accessible, affordable and quality childcare to all families. Nonetheless despite massive investment in a string of Sure Start initiatives and providing significant funds through tax credits and childcare vouchers, families still pay 70 per cent of childcare costs.¹⁹

These costs have risen sharply in recent years, particularly in the South, where the average price of a week's nursery care in London has risen from £140 in 2001 to £226 in 2009 (in nominal terms).²⁰ Despite attempts to target care at the most in need through Sure Start schemes, families on low incomes have struggled to keep up with rising costs of formal care. The Government's principal financing initiatives – childcare vouchers and tax credits – primarily benefit those who work in larger firms or who have access to formal care. There is also evidence of a distrust of Sure Start facilities among low income parents, and departmental surveys suggest only 33 per cent of families on the lowest incomes use formal and informal care, compared to 52 per cent of families on high incomes.²¹

Out of touch through unemployment

The objective of keeping parents in touch with the workplace applies to both parents currently in work and parents out of work. A considerable amount of research has focused on the reasons parents may be unemployed.²² This research points towards the importance of housing, education and skills, health and welfare-to-work policies in incentivising work effort among low-wage parents.

Table 3: Work poor families (households with dependent children)

Source: Office of National Statistics (2008), *Work and worklessness among households*, p. 2.

	Couples (per cent of household type)	Lone parents (per cent of household type)
April-June 2003	279,000 (5.1%)	741,000 (43.2%)
April-June 2008	277,000 (5.0%)	714,000 (40.4%)

As shown in Table 3 there are many more work poor lone parents than work poor couples. The proportion of couples with dependent children with no adult worker has remained stable at around 5 per cent between 2003 and 2008, while the number of lone parents who do not work has fallen to 40 per cent (from 43 per cent) of lone parent families. This fall reflects both policy changes (such as changes to childcare arrangements and the Working Tax Credit) over this period and the strength of the labour market.

Work is discouraged

Work poor families find that the interaction of main welfare benefits and other financial assistance create poverty traps both of finance (the UK has some of the highest marginal effective tax rates in the EU) and complexity.²³ As well as discouraging work, these poor incentives can be reflected in marriage penalties (where people are discouraged from entering into or remaining in a relationship in the nature of marriage).²⁴

Reducing poverty traps is a challenge, but a useful starting point for reform would be to address the complexity of the Working Tax Credit and the risk of recipients being overpaid during the year and incurring year-end debts when their incomes or family circumstances fluctuate.²⁵

19 Daycare Trust (2007), "Childcare costs continue to rise beyond parents reach", 30 January, http://www.daycaretrust.org.uk/data/files/Research/costs_surveys/childcare_costs_survey_2007.pdf.

20 Daycare Trust (2009), *Child Costs Survey 2009*, London; Price Waterhouse PricewaterhouseCoopers (2006), *Children's Services-the childcare market*, report to Department for Education and Skills, p. 12.

21 Kazimirski, A. et al (2007), *Childcare and Early Years Survey 2007: Parents', Use, Views and Experiences*, Department of Children, Schools and Families.

22 For Government papers see, for example, HM Treasury (2008), *Ending child poverty: everybody's business*, London, Cabinet Office Social Exclusion Task Force (2008), *Think Family: Improving the life chances of families at risk*, Harker, L. (2006), *Delivering on Child Poverty: what would it take? A report for the Department for Work and Pensions*.

23 Bosanquet, N. et al. (2008), *Shifting the unequal state: from public apathy to personal capability*, Reform, p. 17.

24 Nolan, P. (2008), 'The Value of Family: Fiscal Benefits of Marriage and Reducing Family Breakdown in New Zealand', Report to Family First NZ Inc, New Zealand Institute of Economic Research, p. 14.

25 Nolan, P. (2006), 'Tax Relief for Breadwinner or Caregivers?', *Journal of Comparative Policy Analysis*, Vol. 8, No 2, p. 178.

Clusters of problems

The Treasury's recent review of child poverty found that there were 1.4 million children in workless families below the poverty threshold.²⁶ Of these, 500,000 children were in workless couples and 900,000 children were in lone parent families. Of these families the most common characteristics were that they lived in social housing, their children were aged under 5, and that the parents were disabled.

Social housing

Reform authors have noted the link between social housing and low social mobility before.²⁷ One of the key problems associated with social housing is that it prevents contact with the workplace by reducing labour mobility. Writing recently, John Hills set out the scale of the problem:

- > Nationally, one in eight moves is associated with work, but only a few thousand social tenants each year move home for job-related reasons while remaining as social tenants (even within the same area), out of a total of nearly four million.²⁸
- > One of the key recommendations of the report was to link social housing and employment, for example giving more weight to job changes as a reason for a change in social housing.

The issue of disability involves the twin themes of mental health and reform of the Incapacity Benefit. *Reform* has previously set out detailed ideas on both of these policy areas.²⁹ The key for mental health is to introduce choice and competition into the NHS. So far the positive reform programme has bypassed mental health services. The key for welfare reform is to open up the provision of Incapacity Benefit and to link receipt of benefit to work.³⁰

Education and skills

The Treasury's report also notes that "lack of education and skills is a key driver of worklessness".³¹ It advocates a greater use of the Train to Gain programme to increase employer training of low-skilled people. But as *Reform's* research has shown, that programme, along with other central initiatives, has delivered poor outcomes and value for money.³² The better way is to route government funding through individual learners (such as reallocating the current expenditure by government on teaching and capital to students through an Individual Education Account).

Families at risk

A particular concern of current policy is provision for families at risk, that is those with multiple problems of worklessness, poor mental health or substance misuse. The recent Cabinet Office paper Think Family called for co-ordination between government departments and agencies.³³ The agencies listed, however, deal with children and healthcare rather than work. These families will benefit from contact with work more than other workless families. Growing up in a work poor family can lead to disadvantage in later life due to inherent behavioural and health problems associated with poverty and low expectations about future careers.

26 HM Treasury (2008), *Ending child poverty: everybody's business*, London.

27 See Bosanquet, N. et al (2008), *Shifting the unequal state: from public apathy to personal capability*, *Reform*.

28 Hills, J. (2007), *Ends and means: the future roles of social housing in England*, ESRC Research Centre for Social Exclusion.

29 Bosanquet, N. (2006), *Mental health services in the NHS: using reform incentives*, *Reform*.

30 Boys Smith, N. (2006), *Reforming welfare*, *Reform*.

31 HM Treasury (2008), *Ending child poverty: everybody's business*, London.

32 Haldenby, A. et al (2008), *The mobile economy*, *Reform*.

33 Cabinet Office (2007), *Reaching Out: Think Family-analysis and themes from the Families at Risk Review*, June.

3

The “invisible” father

Women are taking a more vital role in the modern work force. On average 70 per cent of women of working age are employed.³⁴ For 35 to 50 year olds the proportion even higher at 77 per cent, while only 7 per cent of mothers have not been previously employed.³⁵ Almost 70 per cent of mothers work through pregnancy, and survey data commissioned by the Equality and Human Rights Commission demonstrates that mothers are now more often than not determined to continue with their careers.³⁶

Despite these cultural shifts and economic changes Britain’s system of parental leave continues to reflect traditional gender roles and severely undermines the ability of mothers to remain attached to the workplace and continue their careers. In *Working Better* the Equality and Human Rights Commission noted that Britain’s system remains one of the most gender biased in the developed world, where fathers are absent from home and mothers face discrimination in the workplace.³⁷

There have been recent attempts to encourage fathers to take a more active role in parenting. While laudable, the Government has still not addressed the policies that are discouraging fathers from acting in more family orientated ways.

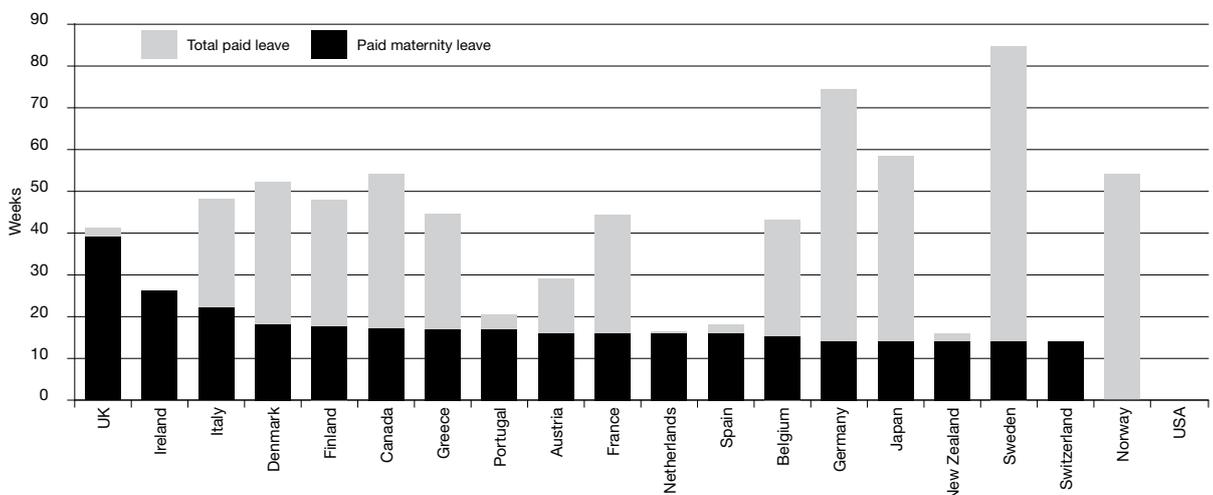
Among the most backward

British parental leave still encourages families to adopt a traditional division of responsibilities. Britain has among the highest level of maternity leave and the lowest level of paternity leave in Europe. In the UK mothers are entitled to 39 weeks of statutory maternity pay, and it is proposed to increase this to 52 weeks funded leave in 2010. The UK is also unusual in not providing paid family leave – which in the majority of OECD countries is more generous than the total of maternity and paternity leave.³⁸

Compared to the generous provisions made for new mothers, fathers are only eligible to take two weeks leave within eight weeks of the baby’s birth. If they take only one week when their baby is born they lose the second week’s entitlement.³⁹ Although in 2006 the Government introduced plans to introduce 26 weeks additional paternity leave if the mother returns to work early, the policy has yet to be implemented.

Figure 1: Maternity leave as a proportion of paid leave

Source: Ray, R. (2008) *A Detailed Look at Parental Leave Policies in 21 OECD Countries*, Centre for Economic and Policy Research, Washington.



34 Office of National Statistics (2008), *Annual Survey of Hours and Earnings*, 14 November.

35 Dex, S. and K. Ward (2007), *Parental care and employment in early childhood: analysis of the Millennium Cohort Study (MCS) Sweeps 1 and 2*, Equal Opportunities Working Paper Series, No. 57.

36 Equality and Human Rights Commission (2009), *Working Better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London.

37 *Ibid.*

38 Families Commission (2008), *It's about time: towards a parental leave policy that gives New Zealand families real choice*, Research Report No 3/07, August 2007, Families Commission, Wellington, p. 32.

39 Equality and Human Rights Commission (2009), *Working Better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, p. 24.

Consequently, policies that were aimed to assist mothers to continue employment have forced parents into compromises. Despite attitudes shifting away from “traditional” expectations about the roles of mothers and fathers, the British system has entrenched the assumption that only mothers bring up children.

Lack of involvement of fathers

Politicians and commentators have raised a chorus of concern about the absence of the father in the modern home. Ed Balls, the Children, Schools and Families Secretary, urged that “all fathers [should] feel supported by their employers, so that they can make time for their families and work flexibly around caring for their children.”⁴⁰ But Government policy has been limited to campaigns to raise awareness of the value of fatherhood and provide information about flexible working without tackling the financial disincentives for fathers to take greater responsibility in the home.

As well as receiving very limited entitlement, research has also shown that fathers continue to be constrained in taking time off work to assist with childcare. According to survey data only 55 per cent of fathers take two weeks statutory paternity leave, while a third do not take paternity leave and 10 per cent believe that they are not eligible.⁴¹

This tendency of fathers to take only limited time off work to assist with childcare comes despite half of fathers thinking they are spending too much time at work and with 88 per cent of fathers who did not take paternity leave saying that they would have liked to.⁴² Often fathers are prevented from taking their full entitlement due to financial difficulty from losing pay around the birth of their child or from employer resistance. This decision by fathers not to take paternity leave has significant effects on a child’s upbringing and society at large.⁴³

When fathers fail to be active parents their children suffer.⁴⁴ Nearly half of mothers would like to see their partners spend less time at work, and fathers who take paternity leave themselves believe it improves the quality of their family life.⁴⁵ There is strong evidence from the National Child Development Study that suggests “involved fathers” ensure more positive outcomes. Participating in childcare and forming a connection with the child in the first year is crucial for continued involvement and the child’s intellectual and emotional development.⁴⁶

Even among dual-earner couples women spend more time on housework and childcare than men. With mothers still taking the burden of responsibility over childcare, the gender divide in the workplace has remained entrenched. The promotion of active fatherhood is crucial for removing obstacles that prevent women from achieving their full potential at work.

Discouraged and forgotten

The current system of maternity leave has a significant influence on the position of women in the workplace. The unequal division of labour in the home is reflected in a higher incidence of part-time work among women. Flexible work arrangements are often used more by mothers than fathers and employers are more likely to accept a request for flexible hours from women compared to men.⁴⁷

The existing system also affects whether a mother continues employment after maternity leave. There is evidence that mothers’ income (especially when it lifts families from low to moderate incomes) plays an important role in reducing the negative effect of poverty on child wellbeing. The existing system also encourages more mothers to quickly return to work on a full-time basis soon after birth, even when evidence indicates potential negative effects.

40 Department for Children, Schools and Families (2009), “Ed Balls urges employers to make more time for dads”, 24 June.

41 Equality and Human Rights Commission (2009), *Working Better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, p. 24.

42 *Ibid*, p. 24.

43 Burgess, A. (2007), *The costs and benefits of active fatherhood*, Fatherhood Institute.

44 Families Commission (2008), *It’s about time: towards a parental leave policy that gives New Zealand families real choice*, Research Report No 3/07, August 2007, Families Commission, Wellington, p. 36.

45 Equality and Human Rights Commission (2009), *Working Better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, p. 24.

46 Flouri, E. (2004), *Fathering and Child Outcomes*, John Wiley & Sons, Chichester.

47 Equality and Human Rights Commission (2009), *Working Better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, p. 24.

Discouraging employers from hiring mothers

The system of paid maternity leave has created new barriers for women in getting jobs. Although employers can reclaim all or most of statutory maternity pay, reclaiming these payments comes at an administrative and compliance cost.⁴⁸ This compliance burden facing individual businesses may be enough to discourage small businesses from hiring women of childbearing age.⁴⁹

Additionally, maternity pay is likely to be at least partly covered for through lower wages, particularly in the smallest firms, which further encourages lower pay for women. This wage differential has a negative impact on productivity (such as discouraging investment in particular types of human capital).⁵⁰

Policies have exacerbated the pay gap

Social commentators and politicians have long attacked the pay gap between men and women, but there has been less recognition of the potential effect of current parental leave policies in increasing this divide. Individuals opting for part-time work, which is common among mothers, are often forced onto the “sticky floor” of the workplace, characterised by low paid and low productivity employment with little chance for progression.

Official statistics show that the median hourly wage was 12.8 per cent higher for men than women in 2008.⁵¹ In some economic sectors the gap is significantly wider.⁵² This pay gap reflects, among other things, the relatively high proportion of women engaged in part-time work and the interruptions in their labour participation due to care-giving responsibilities. As Brown (2008) noted:

“Women’s participation in paid work has grown markedly over the last few decades, but still follows a very different path to men’s. Women’s careers tend to be more intermittent and more commonly involve part-time work. Mothers earn much less over their lifetime than non-mothers.”⁵³

The pay gap between men and women damages family life and society. Crucially, this pay gap affects all women – not just mothers. Employers often treat all women of child bearing age as potential mothers.⁵⁴

Taxes and benefits

Although designed to assist families on low incomes, the tax and benefit regime now creates significant disincentives to mothers gaining employment.⁵⁵ If a second parent enters work families may only experience a slight increase in their household income. Tax credits have meant that second earners within the family frequently face high effective marginal tax rates. Further, disincentives are higher for families with children due to the greater provision of targeted assistance to low income families with children. Consequently, an increasingly complex regime has encouraged many more mothers, especially in two-parent households, to remain at home and out of the work place.

The value of work

Paid work is vital for both the individual and society. Family incomes have a significant influence on child outcomes, and this can be seen in the Government’s approach to child poverty, which has emphasised securing employment for parents. Single income families have a higher incidence of poverty than two earner families and this risk of poverty is highest for families where the mother is the sole earner. Emphasis has thus been placed on encouraging both parents into employment. As well as raising family income, there is also strong evidence to suggest that undertaking employment after pregnancy minimises the risk of depression among mothers.⁵⁶ While workforce participation may not be desirable for every parent at every time, reducing disincentives to undertake work ensures that mothers and families have more choices in deciding their roles and responsibilities.

48 Most employers can recover 92 per cent of their Statutory Maternity Pay payments from HMRC, while employers whose total annual National Insurance payments are £45,000 or less can recover 104.5 per cent.

49 Brown, J. (2008), *Million Dollar Babies: Paid Parental Leave and Family Policy Reform*, Issues Analysis, No. 102, Centre for Independent Studies, Canberra.

50 Walby, S. and W. Olsen (2002), *The Impact of Women’s Position in the Labour Market on Pay and Implications for UK Productivity*, Women and Equality Unit, Department of Trade and Industry, London.

51 Office of National Statistics (2008), *Annual Survey of Hours and Earnings*, 14 November.

52 *Guardian* (2009), “City’s ‘shocking’ gender pay gap revealed in equality report”, 9 April.

53 Brown, J. (2008), *Million Dollar Babies: Paid Parental Leave and Family Policy Reform*, Issues Analysis, No. 102, Centre for Independent Studies, Canberra.

54 Families Commission (2008), *It’s about time: towards a parental leave policy that gives New Zealand families real choice*, Research Report No 3/07, August 2007, Families Commission, Wellington, p. 39.

55 Brown, J. (2008), *Million Dollar Babies: Paid Parental Leave and Family Policy Reform*, Issues Analysis, No. 102, Centre for Independent Studies, Canberra.

56 Dex, S. and K. Ward (2007), *Parental care and employment in early childhood: analysis of the Millennium Cohort Study (MCS) Sweeps 1 and 2*, Equal Opportunities Working Paper Series, No. 57.

Barriers to work cost everyone

Women are increasingly segregated into distinct and low-value occupations, which reinforce expectations about gender roles. These rigidities not only mean that the right person is not allocated to a particular job, but that women are discouraged from working in general. This barrier to talent and declining diversity of the work force is costing the British economy and society severely, undermining both labour productivity and GDP.

Six months provides a good balance of leave

Shorter periods of parental leave have been found to strengthen women’s attachment to the workforce and reduce the size of the wage penalty facing mothers. Prolonging the period of parental leave may increase the time that mothers spend outside of the labour market and reduce job tenure and work experience.⁵⁷ Studies suggest that six months is the optimal balance of leave, and that as the length of leave increases (especially beyond three years) negative effects on women’s wages and future economic wellbeing become more likely.⁵⁸

Maternity leave has an economic benefit

Studies have also illustrated that successive generations of mothers taking maternity leave have higher rates of return to employment and return in shorter periods of time.⁵⁹ However, research undertaken after the 2003 extensions to maternity leave found that the proportion of mothers taking more than 6 months off work rose. In particular, the proportion increased fastest among higher earning households, although there were variations in duration of leave according to mothers’ occupations. Along with delays to the start of childbearing, increasingly quick returns to work have improved women’s labour market status and earning power.⁶⁰ Maternity leave should thus support mothers generating a more continuous employment history.

57 Families Commission (2008), *It’s about time: towards a parental leave policy that gives New Zealand families real choice*, Research Report No 3/07, August 2007, Families Commission, Wellington, p. 38.

58 *Ibid.*, p. 38.

59 Dex, S. and K. Ward (2007), *Parental care and employment in early childhood: analysis of the Millennium Cohort Study (MCS) Sweeps 1 and 2*, Equal Opportunities Working Paper Series, No. 57.

60 *Ibid.*

4

Productivity not presenteeism

The most successful businesses and people concern themselves with productivity not presenteeism. With the retirement age rising, working lives are now more of a marathon than a sprint. People who succeed in both their family and work lives will be those who manage their time wisely and are flexible in maintaining and updating their skills.⁶¹ Success will be about keeping in touch with work and the world – not just being there. However policy solutions focus on a rigid division of time and effectively present an either/or choice to parents and employers.

The real world – a blurring of home and work

Over the past decade technological advances and the demands of the 24/7 economy have been reflected in increased flexible working. The “win-win” lies in greater flexibility for parents and greater output and innovation for employers. Job satisfaction and morale improves, while employers can provide new services at evenings and weekends. Flexible working is the critical link in improving Britain’s productivity.⁶² This can also provide real opportunities for families, especially to women who work part-time and who would otherwise have to leave the labour force entirely.⁶³

Flexible and customer led is key

Schemes that allow employees to control the hours and location of their working day appear to work best. A key element of success lies in responding to customers’ needs and also giving staff better flexibility over their working times. There are numerous examples:

Flexible rosters

- > Supermarket bakers replaced a fixed schedule – where workers had to come in early – with rotating hours that provide workers with flexibility and maintain a regular supply of freshly baked bread. Sales increased by more than 65 percent in the first year and employee satisfaction rose by 10 percent.⁶⁴

Out of hours

- > Gas engineers and staff in similar service firms are starting before the ‘regular’ working day begins, which suits customers working full-time and provides workers with time during the day for child caring responsibilities.⁶⁵
- > A local Library Service introduced Sunday opening, leading to an increase in library use, especially among families using computing facilities and the children’s library. Team-based self-rostering also gave staff greater control over their working times.⁶⁶

Compressed hours

- > A senior telecoms executive changed his hours to work 10 hour days from Monday to Thursday so he could spend Friday and the weekend with his family. He has effectively prioritised while at work and revenues and profit margins in his part of the business have grown strongly.⁶⁷
- > A car dealership changed its opening hours to 8am to 7pm with an accompanying introduction of a staff rota system that meant working four longer days at these longer hours and three days off.⁶⁸

61 Bosanquet, N. et al. (2008), *Shifting the unequal state: from public apathy to personal capability*, Reform.

62 Jones, A. et al (2007), *Transforming Work: reviewing the case for change and new ways of working*, Equal Opportunities Commission, Manchester.

63 Hosking, A. (2004), ‘The Costs and Benefits of Flexible Employment for Working Mothers and Fathers’, School of Social Science, University of Queensland.

64 Equality and Human Rights Commission (2009), *Working Better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, p. 70.

65 Equal Opportunities Commission (2007), *Enter the timelords: Transforming work to meet the future*, June, London, 54.

66 *Ibid.*, p. 10.

67 Equality and Human Rights Commission (2009), *Working Better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, p. 66.

68 Equal Opportunities Commission, (2007), *Enter the timelords: Transforming work to meet the future*, June, London, p. 49.

Going it alone

Rising numbers of parents are setting up their own businesses to take advantage of greater flexibility and be based out of home. Research from the Joseph Rowntree Foundation showed that a quarter of families with children included at least one self-employed parent.⁶⁹ Freelancing is also a popular choice, with many parents wanting the ability to balance work and childcare.

Laggards

Although there are productivity gains from making employment more flexible, some employers are still stuck in the old mode of valuing inputs over outputs and putting rigid structures in place that do not benefit employees or customers. Many parents remain dissatisfied with the work options that are currently available and feel that they do not have access to the type of flexible work that they really desire, such as the power to alter working days or shifts at short notice.⁷⁰

One cause of the problem is workplace culture. The emphasis on presenteeism and the current maternity arrangements lead to an “all or nothing” culture facing parents. It is not possible, for example, to work regular part-time shifts without losing entitlement to maternity leave. Many offices have not made the mental shift to remote working or contact via e-mail.

Still over a third of employees do not have access to flexible working hours.⁷¹ While smaller and larger firms have succeeded in implementing flexible hours, medium sized companies often face particular obstacles to introducing flexible working because they lack the resources of large employers and the informality of small employers.

Either /or parental leave

A key objective of family leave regulation should be to keep parents in touch with the workplace if they choose to spend time bringing up their family. The current regulation succeeds in one important respect – it protects the rights of parents to continue employment after a period of leave. But it fails in a crucial area – to keep employees in touch with the workplace during leave. Mothers are entitled to take 10 “keep in touch” (KIT) days during their maternity leave. In practice this entitlement amounts to much less contact than 10 days, since any part of a day worked counts as one KIT day.⁷²

If mothers work an extra day over their 10 days’ entitlement they lose a full weeks’ statutory maternity pay. Therefore the incentive is to stay out of the workplace altogether or to go back to the workplace to earn a salary. It is very possible that mothers will spend only a few hours in contact with the workplace during a years’ maternity leave and will lose vital skills and capability.

Inflation of childcare costs

Childcare has been at the centre of the Government’s drive to encourage mothers into work. Improving the availability of affordable, high-quality childcare has been a national priority. Since 1998, when the Government launched its first Childcare Strategy, there has been a massive increase in the number of places, doubling to 1.3 million at the end of 2008.⁷³

Generous funding has also been provided. But the performance of this funding has been mixed. For example, while the tax credit scheme, under which families can claim up to 80 per cent of child care costs, benefited 414,000 families in 2008, this represented only 26 per cent of eligible families.⁷⁴ The Government’s voucher scheme, which allows employees to take £243 of their gross monthly salary as tax free vouchers on childcare, mainly goes to workers in medium and large sized firms and only one in 50 eligible individuals uses it.⁷⁵

69 Bell, A. and I. La Valle, (2003), *Combining self-employment and family life*, 18 June, Joseph Rowntree Foundation.

70 Hosking, A. (2004), ‘The Costs and Benefits of Flexible Employment for Working Mothers and Fathers’, School of Social Science, University of Queensland.

71 CIPD (2009), *Employee outlook: quarterly survey*, April.

72 As noted in Business Link (2009), *Maternity leave and pay*, “Any amount of work done on a KIT day counts as one KIT day. Therefore, if an employee comes in for a one-hour training session and does no other work that day, she will have used one of her KIT days.”

73 Department for Children, Schools and Families (2009), *dcsf.gov.uk*.

74 Department for Children, Schools and Families (2008), *Departmental Report*, pp. 151-76.

75 HM Revenues and Customs (2009), *hmrc.gov.uk*; Childcare Choices (2007), “Parent’s ‘can’t be bothered’ to claim childcare services”, 1 May.

The Government has also spent £3.9 billion between 1997 and 2008 on its flagship Sure Start scheme.⁷⁶ But while the Government has been committed to diversifying public service providers across education and health, childcare policy remains one of the last remnants of the nanny state. Current policy has failed to deliver meaningful choice to parents, while more stringent regulation, funding initiatives and entitlements have driven up costs.

Unresponsive to diverse needs

Despite this increase in government funding, the supply of childcare remains both costly and unresponsive to the diverse needs of modern parents. Ofsted regulations, qualification requirements and complicated staff-child ratio mechanisms have all placed significant costs on childcare providers. These restrictive regulations have driven up childcare costs.⁷⁷ For example, in London a week's nursery care has risen from £140 in 2001 to £226 in 2009.⁷⁸

As well as becoming more expensive, evidence suggests that families often struggle to find the most appropriate childcare for their needs, while as many as 70 per cent of parents perceive a lack of childcare providers.⁷⁹

Targeting funding on childcare costs through the taxation system and childcare vouchers has tended to favour formal providers that predominately offer core services.⁸⁰ The rapid expansion in financing initiatives for parents has encouraged the childcare market to become both brittle and dominated by formal care.

Government policy has encouraged the growth of formal childcare despite its unpopularity with parents, with a majority of parents never using it.⁸¹ Surveys have shown that as many as a third of parents believe nurseries are letting their children down, while parents often find it difficult to form a relationship with a particular carer.⁸² Moreover surveys continually stress the diversity of lifestyles of modern parents.⁸³ Most parents would ideally share childcare between themselves, with friends and relatives, or a nanny.⁸⁴

However informal care has not benefited from Government policy, with many smaller and more flexible providers squeezed out by new regulations and larger organisations. The number of childminders has, for example, decreased by 40 per cent since 1997.⁸⁵

Flexible working legislation but inflexible workplaces

Flexible working arrangements have become more widespread since Government legislation in 2002, while seven out of 10 parents would work flexibly if the option was available to them.⁸⁶ Nonetheless current flexible working regulation is excessively bureaucratic, and often only smaller and larger firms have succeeded in providing parents with greater flexibility. Research by Equal Opportunities Commission in 2007 has shown that less than half of British firms offered flexible hours, compared to 90 per cent of European firms.⁸⁷

Under current legislation, employees with caring responsibilities for children aged up to 16 (18 and under where the child is disabled) and carers of adults have a statutory right to request to work flexibly. But taking up this apparent right can be so bureaucratic that it fails to work in practice. The government guide to the right runs to fully 4,600 words.

76 Public Accounts Select Committee (2007), *Thirty-eighth report: Sure Start Children's Services*, House of Commons, London.

77 Penn, H. (2007), "Childcare Market Management: how the United Kingdom Government has reshaped its role in developing early childhood education and care", *Contemporary Issues in Early Childhood*, 8(3), p. 203.

78 Daycare Trust (2009), *Child Costs Survey 2009*, London; Price Waterhouse Coopers (2006), *Children's Services-the childcare market*, report to Department for Education and Skills, London, p. 12.

79 Daycare Trust, *Child Costs Survey 2009*, London.

80 Penn, H. "Childcare Market Management: how the United Kingdom Government has reshaped its role in developing early childhood education and care", *Contemporary Issues in Early Childhood*, 8(3), p. 199.

81 Hakim, C. et al (2008), *Little Britons: Financing Childcare Choice*, Policy Exchange, p. 27.

82 *Guardian* (2006), "One in three working mothers unhappy with nurseries", 16 October.

83 Houston, D. and J. Waumsley (2003), *Attitudes to flexible working and family life*, Joseph Rowntree Foundation, 17 December.

84 Bryson, C. et al (2006), *Childcare and Early Years Provision: A Study of Parents' Use, Views and Experience*, Department for Education and Skills, London.

85 Department for Education and Skills (2001), *Children's Day care facilities*, London; Ofsted (2007), *Registered Childcare providers and places in England*, London.

86 Fatherhood Institute (2008), *The difference a dad makes*, Fatherhood Institute.

87 *BBC Online* (2007), "UK staff 'denied flexible work'", 14 June.

As a result it is being bypassed by employees. Government surveys suggest that only half of employees believe they have access to “flexitime” arrangements and only 20 per cent believe they would be able to work from home.⁸⁸ The Equality and Human Rights Commission has noted that most requests for flexibility are made informally rather than formally through the right to request process. Informal requests were made by 28 percent of women and 18 percent of men, while formal requests were made by 15 percent of women and eight percent of men.⁸⁹

Careless regulation costs jobs

Job protection protects parents from having to make a complete break from paid work following the birth of a child. This provides a future degree of job security by ensuring that parents who take a break are not disadvantaged in pay or position when they return to work.⁹⁰

However, improving new parents’ job security in this way requires making trade-offs with business compliance costs. International data show that although the United Kingdom is generally seen as an easy place to do business (ranked by the World Bank as sixth of 181 countries), inflexibility in the labour market leads to some high business costs.⁹¹ Furthermore, in recent years (2008 and 2009) the ranking for the rigidity of employment has worsened, with the overall rank of employment regulations falling from 22nd to 28th.

While some trade-offs are inevitable in the design of regulations – the costs of the current system could be lowered through reducing uncertainty regarding employees’ return from leave. The uncertainty regarding the return from leave has been shown to increase with the length of leave available.

The way forward – building on the Early Years Entitlement

There are positive ways in which Government has supported parents by giving flexibility to parents and businesses.

The Early Years Entitlement embodies these principles. The Early Years Entitlement is paid to nurseries for 3 and 4 year old children to provide each child with 12-and-a half hours a week of pre-school in a registered nursery for 33 weeks a year. This allowance is scheduled to rise to 15 hours per week by 2010. There is near universal take up of these places, with 96 per cent of eligible children receiving this care.⁹² This sort of approach should prove more effective in driving more sustainable childcare provision that meets the needs of today’s parents.

88 Hooker, H. et al (2007), *The Third Work-Life Balance Survey*, Department of Trade and Industry, Employment Relations Research Series No. 58.

89 Equality and Human Rights Commission (2009), *Working Better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London.

90 Families Commission (2008), *It’s about time: towards a parental leave policy that gives New Zealand families real choice*, Research Report No 3/07, August 2007, Families Commission, Wellington, p. 33.

91 The overall ranking for the United Kingdom for ease of doing business in the World Bank’s 2009 report (for the 2007-08 year) was 6th out of 181 countries. The United Kingdom was below Singapore (ranked first), New Zealand (second), United States (third), Hong Kong and China (fourth equal), and Denmark (fifth). However, the performance in relation to employing workers was less favourable, with the United Kingdom being ranked 28th.

92 Department of Children, Schools and Families (2009), dcsf.gov.uk.

5

Parental Pay

There is a strong case for providing support to families with new children. This support should be provided in a way that is fair and that supports economic growth. Reforming this support can be done within existing (or even lower) levels of government expenditure as the focus of reform would be on redesigning existing programmes that are underperforming.

Reform advocates reforming the existing maternity entitlement to make it fairer and more flexible. This would comprise three main changes:

- > Change current maternity pay to parental pay – so that it can be used for a father as well as a mother to take time off work.
- > Abolish the salary related element of maternity pay and instead pay it at a flat rate for all parents.
- > Stop making the pay dependent on the time taken off work.

From Maternity Pay to Parental Pay

As with existing maternity pay, the parental pay would be paid to all mothers in employment following the birth of a child. As with child benefit they could opt for it to go to one parent's or their joint bank account. The work test for this payment would remain the same as that which currently exists for statutory maternity pay (see appendix 2). However the administration would be simplified as exact salary levels would not have to be proved.

Table 4: From maternity pay to parental pay

	Status quo	Parental Pay
Maternity pay	6 weeks at 90 per cent of salary 33 weeks at standard rate	Share £5,000 "parental pay" paid in 6 instalments to support time raising children 2 weeks compulsory statutory holiday pay (4 weeks for factory workers)
Paternity pay	Two weeks paid at £123.06	Share £5,000 "parental pay" paid in 6 instalments to support time raising children 2 weeks statutory holiday pay

The recommended level of Parental Pay is £5,000. This equates to £192 per week for six months or £382 per week for three months. As low income families typically tend to take shorter periods of leave – this would represent a significant increase on the current £123 per week they receive. Paying the Parental Pay to the family could also support fathers when they take time off to care for their child.

From unfair payments to a flat rate

The payment would be made at a flat rate rather than being linked to income – on current calculations it could be £5,000 per eligible child (paid over six months) without costing the exchequer any additional money. This would mean that support would be more targeted at low and average income families, with high earners no longer being advantaged as they are at present.

Table 5: From unfair payments to a flat rate

	Status quo	Parental Pay
Redistributive equity	Low – value of statutory maternity pay varies with income	High – all new parents entitled to same financial benefit

No longer tying pay to time off work

The parental pay would no longer be tied to time off work in the way that current maternity pay is. Instead employees would be able to put the money towards funding time off work, which employers would be obliged to give them on an unpaid basis. This could be six months for each parent to be taken at some point in the first year.

Table 6: No longer tying pay to time off work

	Status quo	Parental Pay
Maternity leave	Up to 12 months Additional 13 weeks unpaid until the child is aged 5	Up to 6 months to be taken over first year – employers can offer more
Compulsory period of maternity leave	2 weeks compulsory (paid by Government) 4 weeks for factory workers	2 weeks compulsory (paid by employer) 4 weeks for factory workers
Paternity leave	Up to 2 weeks (must be taken in one block) within 56 days after the baby is born Additional 13 weeks unpaid until the child is aged 5	2 weeks paid holiday and up to 6 months to be taken over first year – employers can offer more

Decoupling pay and leave would reduce the need for employers to police the system and reduce the compliance burdens that they face. Employers would still need to provide cover when a staff member was away. However, this leave could be arranged in a more flexible way. This would make it easier for parents to keep in touch with the workplace by doing an occasional shift or attending meetings.

Businesses would be obliged to provide two weeks extra holiday to new parents (four weeks for mothers working in factories). This would be a small cost compared to the benefit of removing a considerable amount of bureaucracy and burden that exists in the current system. No longer would employers have to administer complex maternity benefits and claim them back from government agencies.

Reform has set this leave period at six months as this exceeds the United Nations ILO convention 183 recommendation of a minimum maternity leave of 14 paid weeks. This is to help protect women's health during pregnancy, allow for physical recovery following childbirth and support mothers' breastfeeding.⁹³

As the pay is unrelated to time taken off work, both parents could use it to fund a period of unpaid leave in the first year of their child's life. This could be taken simultaneously or consecutively. If one parent wanted to take all their leave and the other none – they would still be able to access the full funding.

Abolish “gimmick” benefits

A key problem of the current system of support is that it not only provides generous general support for parenting but also extra and highly expensive individual programmes on top. Health in pregnancy grants and the Healthy start scheme duplicate other programmes at a total cost of £250 million per year. Employer Supported Childcare schemes are barely used yet cost £25 million per year. These programmes should be abolished (or rolled into the parental payment if policy makers wish to do so).

The changes to maternity pay could also be extended to the Maternity Allowance. This allowance is already paid at a flat rate, but as the payment will no longer be dependent on remaining out of the labour market there would be some increase in the cost of this programme. This cost could be more than offset by the removal of gimmick payments.

⁹³ Families Commission (2008), *It's about time: towards a parental leave policy that gives New Zealand families real choice*, Research Report No 3/07, August 2007, Families Commission, Wellington, p. 29.

From command and control to flexibility

A more flexible regime of parental pay and leave should be accompanied by slimmed workplace regulation. In most cases employers and individuals are in the best position to decide how to organise their working practices. Government thus needs to ensure that the necessary protections and incentives are in place, but then step back and allow people to organise their own affairs. Employment regulations should be made freer to encourage companies and individuals to take on greater responsibility. This also means leading by example and following the practice of the best employers in regard to its own workforce.

Table 7: From command and control to flexibility

	Status quo	Parental Pay
Labour market regulation	Onerous	Lighter
Childcare regulation	Onerous – leading to a contraction in supply and price inflation	Lighter – more flexibility and informality, greater diversity of supply and lower prices

Government has a responsibility to intervene and protect the public from exposure to harm where there is a plausible risk. However, current childcare regulations have gone too far. Ofsted inspect and regulate to, in their words, “achieve excellence in the care of children and young people, and in education and skills for learners of all ages.”⁹⁴ While some childcare regulation is necessary (to ensure outcomes such as the safety of children), this regulation has lost sight of its key purpose and now acts as a significant constraint on the supply of childcare services. This forces the price of childcare up and reduces the availability of childcare to those families who need it most.

The right to request flexible working also needs to be made simpler and clearer – including that this right extends to new fathers. Improving guidance on this apparent right would encourage greater supply and take up of flexible work arrangements.

Cost of change

Britain currently spends £1.7 billion on maternity and paternity pay. The Maternity Allowance accounts for an additional £0.35 billion. Spending on Parental Pay would be broadly neutral with that on maternity and paternity pay at £1.65 billion (see appendix 2). Note that as Parental Pay is more supportive of labour productivity growth than current arrangements, the benefit in terms of improved economic growth would mean the change is likely to be more (not less) affordable. If reductions in expenditure were required the Parental Pay could be means tested.

As well as these direct costs to taxpayers, it is also important to recognise changes to the costs facing the Government of administering the system and to businesses of interacting with the system. While there would inevitably be some transitional administrative costs, the increased simplicity of the Parental Pay system would mean that ongoing administration costs would likely be lower.⁹⁵ It is also important to not overstate the transitional administrative costs, as existing machinery of government (e.g., used to provide current statutory maternity pay and the Child Benefit) could be used to provide the new payment.

Benefits of change

By changing existing maternity pay into a flexible parent pay that working parents receive at the same rate, bureaucracy can be removed and new flexibility can be introduced. With the payment going to families and not being paid for taking time off, employers can be exempted from costly and bureaucratic meddling. Improvements in workplace practices and regulations that generate more flexible ways of working would also drive a culture based on the contribution people make (productive output) not merely hours they work (input).

⁹⁴ Ofsted (2009), ofsted.gov.uk.

⁹⁵ It is proposed that for tax, National Insurance and social security purposes Parental Pay would be treated in the same way as current maternity and paternity pay. The payment could, however, be treated as exempt for tax, National Insurance and social security purposes although this would come with a greater associated fiscal cost.

Table 8: Benefits of change

	Status quo	Parental Payment
Employer compliance burden	Agree parental leave Monitor leave Pay statutory maternity pay Claim statutory maternity pay Liaise with DWP to confirm eligibility	Agree flexible unpaid leave Provide two weeks holiday entitlement to new parents
New mothers' skills and employment prospects	Damaged – encouraged to be out of the workplace – hard to stay in touch	Protected – can keep in touch with workplace and maintain flexibility
Family time	Fathers discouraged from spending time with children Mothers forced to make either/or choice regarding work and family life	Families can take leave together or extend Low income families have greater funds to support taking time out of work
Workplace productivity	Limit contact to 10 keep in touch days	Can keep employees “in the loop” Better labour productivity
Family time	Fathers discouraged from spending time with children. Mothers forced to make either/or choice regarding work and family life	Families can take leave together or separately. Low income families have greater funds to support taking time out of work

Greater flexibility in employment regulations would provide a stimulus to the economy and lead to a fairer outcome for families. This would allow employers to protect jobs through, for example, allowing workers to reduce their hours or days of work. *Reform's* Parental Pay would help reduce bureaucracy and costs to business by removing them from concerns about maternity and paternity pay.

Flexible labour markets are pro-family

The costs of wider workplace regulation also matter. Flexible labour markets have created a more gender balanced labour market with more part-time opportunities for both men and women, making family life easier.⁹⁶ This is good business sense – only a small minority of employers introduce family-friendly reasons because they want to comply with regulation.⁹⁷ As Lord Mandelson realised earlier this year, extra costs on employment would penalise both employers and families.⁹⁸ The OECD's recent policy brief recommended leaving employers and employees to negotiate their own family arrangements.⁹⁹

Helping unemployed parents keep contact with the labour market

Help for unemployed parents raises the wider issues of housing, education, health and welfare reform, which *Reform* has discussed in other papers. A basic problem of welfare reform is the poverty trap – the disincentive to take up work caused by the loss of benefits. This is the reason for the introduction of benefits such as Family Credit and, latterly, Working Tax Credits. There may be space for new, creative thinking to help families in the greatest disadvantage, for example, how working families could keep greater shares of their income from work, on top of benefits, while their children are young.

96 Office for National Statistics (2009), *Women in the labour market*, 6 March. “At the start of 1971, the employment rate for women was 56 per cent compared with 70 per cent in the three months to December 2008. This increase compares with a similar sized decrease in the employment rate for men over the same period, with the male employment rate falling from 92 per cent to 78 per cent.”

97 British Chambers of Commerce (2007), *Work and life: How business is striking the right balance*. “Only 16 per cent of respondents cited a desire to be legally compliant as a reason for managing their employees flexibly. The majority of respondents were either motivated by a personal conviction or by an employee's request.”

98 *The Times* (2009), “Lord Mandelson plan to tear up new laws splits party”, 23 February.

99 OECD (2008), *Babies and Bosses: Balancing Work and Family Life, Policy Brief*, June. “Governments remain reluctant to intervene in the workplace because of the fear of increasing labour costs and in the belief that this is an area best left to employers and employees to negotiate. Indeed, there is no reason to override industrial bargaining outcomes, unless there are ‘externalities’ to the negotiation process.”

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Appendix 1: Current family benefits

There is a long list of complex welfare benefits available to families who are expecting or bringing up children. These benefits include:

- > **Statutory parental pay and leave:** The cost of statutory maternity and paternity pay to the government in 2009 has been estimated at £1.717 billion.¹⁰⁰ These payments are made to employers to compensate them for their payments of statutory maternity and paternity pay to staff. Payments to staff account for £1.756 billion (employers pay an additional 0.039 billion) and are broken down into £1.688 billion, or 96 per cent, on maternity pay and £0.068 billion, or 4 per cent, on paternity pay.
- > **Maternity allowance:** The cost of the maternity allowance in 2009 has been estimated at £349 million per annum.¹⁰¹ This is paid to new parents not eligible for statutory maternity pay for a maximum of 39 weeks at the standard weekly rate. New parents who also do not qualify for Maternity Allowance may be able to receive the Employment and Support Allowance.
- > **Child benefit:** The cost of the Child Benefit has been estimated at £11.8 billion per annum in 2009.¹⁰² Paid to families with children under 16 (or under 20 and in relevant education or training) living in the United Kingdom. Paid from week 26 in pregnancy. Not based on need (provided on a universal basis).
- > **Tax credits:** Cost £20 billion per annum.¹⁰³ Include the Child Tax Credit and the Working Tax Credit (which contains a Childcare Tax Credit). Received by nine out of ten families with children.
- > **Healthy start scheme:** Cost £94 million per annum.¹⁰⁴ Provides vouchers worth £3.00 each that can be spent on milk, fresh fruit and vegetables or infant formula. Pregnant women and children over one and under four years old get one voucher a week. Children under one year old get two vouchers a week. Free vitamin supplements are also available from NHS clinics and health centres.
- > **Health in pregnancy grant:** The cost of the Health in Pregnancy grant has been estimated at £145 million per annum in 2009.¹⁰⁵ One-off tax-free payment of £190. No income test. Qualification requires being at least 25 weeks pregnant and usually living in the United Kingdom.
- > **Child trust fund:** Estimated cost £370 million per annum in 2009.¹⁰⁶ Long-term tax-free savings and investment account for children born on or after 1 September 2002. Every eligible child receives a voucher worth at least £250 to start the fund. Once the child reaches seven years of age there is a further payment of £250 (£500 if the family is on a low income).
- > **Sure Start Maternity Grant:** Cost £112 million per annum.¹⁰⁷ One-off payment of £500 per baby to help towards costs of a new baby for people who are claiming benefits or tax credits.¹⁰⁸
- > **Employer Supported Childcare schemes:** The Vouchers scheme (allowing employers to provide employees £243 of their gross monthly salary as tax free vouchers on childcare (free from both tax and NICs)) cost the Government £25 million in 2006-7. Few employers operate the scheme and it is estimated that only one in 50 eligible uses it. A partial tax exemption is available for off-site provision and there is a full tax, NICs and reporting exemption for workplace nurseries.

100 Equality and Human Rights Commission (2009), *Working better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, p. 41.

101 Equality and Human Rights Commission (2009), *Working better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, p. 41.

102 Figures for recipients from HMRC (2007), *Child Benefit quarterly statistics*, http://www.hmrc.gov.uk/stats/child_benefit/quarterly.htm; expenditure from HM Treasury (2009), *Main Supply Estimates 2009-10*, London.

103 National Audit Office review of 2007-08 HMRC accounts (http://www.nao.org.uk/publications/0708/hm_revenue_customs_2007-08.aspx).

104 Response by Dawn Primarolo to a written parliamentary question by Jeff Ennis on 6 October 2008.

105 HM Treasury (2009), *Main Supply Estimates 2009-10*, London.

106 *Ibid.*

107 Assumes 224,000 Sure Start Maternity Grants made per annum as per the response given by James Plaskitt to a written parliamentary question by Julia Goldsworthy on 16th January 2008.

108 Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Pension Credit, Child Tax Credit at a rate higher than the family element, Working Tax Credit where a disability or severe disability element is included in the award.

Appendix 2: Cost of Parental Pay

The cost of Parent Pay depends on the:

- > Level of assistance (e.g., payment per week).
- > Length of entitlement (e.g., weeks of payment).
- > Number of eligible recipients (take-up).

Level of assistance

The current level of statutory maternity pay is £123.06 per week. The national minimum wage is £5.73 per hour for workers aged 22 years and older (the rates for younger people are lower). The current statutory level of the payment is equivalent to around 21 hours of work at minimum wage.

A higher level of Parental Pay, such as £192 per week would provide £5,000 over a 6 month period, or £12.00 per hour (based on a 16 hour working week (consistent with an hours-based threshold in the Working Tax Credit)).

This figure can also be compared to the current levels of assistance. Research commissioned by the Equality and Human Rights Commission estimated the number of eligible claimants for statutory maternity pay at 330,150 mothers and for statutory paternity pay at 470,832 fathers. The same research estimated a cost of statutory maternity pay at £1.688 billion (giving an average of £5,112.83) and of statutory paternity pay at £0.068 billion (giving an average of £144.43).¹⁰⁹

Length of entitlement

It is proposed that Parental Pay be paid for the equivalent of 26 weeks. This is consistent with objectives for child development and human capital acquisition (e.g., maintaining attachment to the labour market). This is higher than the length of entitlement contained in the European Commission's proposal to amend the Pregnant Workers' Directive to extend maternity leave entitlement to 18 weeks.

Number of eligible recipients (take-up)

In 2003 there were 695,500 births in the United Kingdom.¹¹⁰ The Office of National Statistics project the number of births to remain around this level for the next few decades, although there will be a slight rise in the number of births during the 2010s.

Only a proportion of new births are, however, eligible for SMP and SPP as to be eligible the parents of the child must each respectively satisfy the continuous employment and earnings rules. These rules require:

- > being employed by an employer for a continuous period of at least 26 weeks into the qualifying week (which is the 15th week before the week in which the baby is due). The employment rule may be modified if the baby is born prematurely and/or there are breaks in employment
- > average weekly earnings to be at least equal to the lower earnings limit for National Insurance (NI) purposes (at the end of the qualifying week).

Research commissioned by the Equality and Human Rights Commission has confirmed that the number of eligible claimants is much lower than the total number of births.¹¹¹ They estimated that there were 330,150 eligible claimants for SMP and 470,832 eligible claimants for SPP. The higher figure for SPP includes some fathers of children whose mothers are not eligible for SMP.

¹⁰⁹ Equality and Human Rights Commission (2009), *Working better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, pp. 41-42. Due to data limitations averages assume the number of eligible claimants is equal to actual claimants.

¹¹⁰ Office of National Statistics (2004), *Births and Deaths*, 24 June, <http://www.statistics.gov.uk/cci/nugget.asp?id=761>

¹¹¹ Equality and Human Rights Commission (2009), *Working better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, p. 42.

Overall cost

Based on 330,150 mothers eligible for Statutory Maternity Pay the cost of £5,000 Parent Pay would be £1.65 billion.

Costs of extending the policy

If it was desired to extend Parental Pay to fathers with spouses who are currently ineligible for Statutory Maternity Pay (i.e., families eligible for Statutory Paternity Pay only), then, based on 470,832 fathers eligible for Statutory Paternity Pay, the cost of £5,000 Parental Pay would be at least £2.35 billion (this is a lower bound of cost as it does not include Parental Pay received by single mothers).

Research commissioned by the Equality and Human Rights Commission also estimated that removing the requirement to have worked continuously for the same employer for at least 26 weeks in order to be eligible for Statutory Maternity and Paternity Pay would increase the number of claimants eligible for maternity pay by 32,652 and paternity pay by 46,566.¹¹²

The estimate for Statutory Maternity Pay is a good indicator how many new births would be ineligible for Parental Pay due to the requirement for 26 weeks continuous work. Such a change would increase the cost of the scheme by at least £232 million (again this is a lower bound of cost as it does not include Parental Pay received by single mothers).

¹¹² Equality and Human Rights Commission (2009), *Working better: Meeting the changing needs of families, workers and employers in the 21st century*, Equality and Human Rights Commission, London, p. 42.