K Businesses affected by parental leave

Key points

- Around 4 per cent of small businesses — those with less than 20 employees — would have to act as paymasters for the Government under the statutory paid parental leave scheme in any given year.
  - The same proportion would have to pay superannuation on statutory leave if the Government implements employer super obligations in the future.
- Medium businesses with 20 to 199 staff had a 60 per cent chance of having an employee giving birth, while larger businesses were all but certain to have at least one employee birth in a given year.
- Industries with higher probabilities of employee births were those with a greater concentration of larger businesses and/ or higher rates of female employment:
  - The industries where businesses were most likely to have an employee birth included Education (39 per cent), Electricity, gas and water supply (23 per cent), and Health and community services (22 per cent)
  - The industries where businesses were the least likely to have an employee birth were Construction (2 per cent) and Agriculture, forestry and fishing (2 per cent).

K.1 Introduction

Employers would bear some costs associated with the proposed statutory paid parental leave scheme, such as sometimes having to exercise a paymaster function for government and bearing some compliance costs in the general operation of any scheme (chapter 7). The costs to business would be more significant were superannuation obligations also introduced following the proposed three year review.

Participants raised particular concerns about the effects of a statutory scheme on businesses with few employees or those with a strong presence of female employment. For instance, Hair and Beauty Australia said:

> Given that: (a) 97% of hair and beauty salons in Australia are classed as 'small business'; and (b) 98% of the 60,000 workers employed in the hair and beauty industry in Australia are female, the likelihood of such businesses being faced with these

> *'additional compliance and cash flow costs'* on a continual basis is far higher than businesses in any other industry. (sub. DR266, p. 5)

The Retail Confectionery and Mixed Business Association said:

> When a SIR [small independent retailer] employing 4 part time staff has one person who is entitled to PPL the business owner has to find a 25% increase in wages to cover this employee. It is highly unlikely that a business with 100 staff would ever have 25 people claiming PPL at the one time. It also means Superannuation costs also increase by 25% during this period and this can not be recovered. (sub. DR318, p. 6)

And Business South Australia said:

> Up to 90 percent of South Australian businesses are small businesses which do not have the capacity to take on policies such as paid maternity leave. They do not have the capacity to pay. Business SA would not support any proposed legislation that fails to appreciate the realities of operating small businesses. (sub. 139, p. 3)

Given these concerns, it is important to assess how many employers, and particularly small businesses — would be affected by the scheme. That is the goal of this appendix.

K.2 How many small businesses would be affected?

Datasets such as ABS (2005d) and LSAC make it possible to estimate the number of mothers who would be covered by the paymaster function (and if implemented in the future, employer obligations to pay superannuation). In addition, these datasets have information on the size of the employing firm prior to the date of birth. Combined with information on business numbers, it is then possible to estimate the *maximum* number and share of small and other sized firms that may have to exercise the paymaster function (or pay superannuation) in any year. This is a maximum because some firms may account for more than one birth. For instance, large businesses will usually have several employees giving birth in a given year. Nevertheless, a measure of the maximum share of businesses that may have to make superannuation contributions or fulfil the paymaster function is useful as it indicates the maximum exposure by the small business sector.

Based on the patterns of employment and births in 2007, around 33 000 Australian small businesses would have to act as paymasters under the statutory paid parental scheme (table K.1) or 4.3 per cent of the over 750 000 small employing businesses. The actual share will be slightly less, as some businesses, particularly those just at the threshold of becoming medium-sized, will have more than one employee on statutory paid parental leave.

While small businesses account for 90 per cent of total employing businesses, they account for only 28 per cent of mothers who would be annually covered by the paymaster function.

Table K.1 **The maximum number of firms acting as a paymaster for a mother**
2006-07

Size of firm employing eligible mother	*Employees eligible for paymaster function (and super contributions)*	*Number of employing businesses affected*
	People	Businesses
Small businesses (1-19 employees)	32 930	757 200
Medium & large (20+ employees)	84 677	84 117
Mother did not know size of firm	1 267	..
Total	118 874	841 317

a In order to calculate the maximum number of small businesses affected by paid parental leave, we used the expanded CURF from the ABS *Pregnancy and Employment Transitions survey* (PaETS) (ABS 2005d) to estimate the number of mothers working at least eight hours a week for at least one year with one employer prior to the date of birth. Under the Commission's proposal, this group of mothers would be paid through their employer while on statutory paid parental leave (the paymaster function). They would also be eligible for superannuation contributions on their statutory paid leave were the government to introduce this feature in the future. We assumed that no two mothers worked for the same business. This assumption, combined with data on the counts of employing businesses, makes it possible to estimate the maximum affected number of businesses. (This is why the number of affected employees working in medium and large businesses actually exceeds the number of such businesses.) The results above are estimates calibrated to confinements in 2007 — the latest dataset on the number of mothers.

Source: ABS (*Counts of Australian Businesses, including Entries and Exits, Jun 2003 to Jun 2007*, Cat. no. 8165) and ABS (2005d) (PaETS).

K.3 What about different industries and other sized businesses?

The analysis above provides reasonably accurate estimates of the maximum number of small businesses that would have to exercise the paymaster function or, at a later stage, potentially make superannuation contributions. However, it is also useful to investigate how a broader range of business sizes and industries might be affected by a statutory paid parental leave scheme. PaETS is not suitable for undertaking this analysis because the sample size is too small to estimate accurately the numbers of mothers for more finely graduated business sizes and industry groups.

Accordingly, the Commission has adopted an alternative, indirect, method for estimating the impacts of a statutory paid parental leave scheme on business. Three provisos should be noted:

- the following analysis relates to *all* female employees giving birth and not just to those women eligible for a statutory paid leave scheme, let alone the even smaller group meeting the eligibility criteria for the paymaster function.[1] As such, these estimates will considerably overstate the impact of the proposed paid parental scheme on the business sector. (While businesses may face costs relating to the leave taken by all mothers, where firms do not have specific obligations relating to the statutory scheme, these are costs that would occur anyway.)
- the estimates presented in this section are indicative only. This is partly due to the indirect statistical methods and the assumptions required in the analysis, which result in a wider margin of error. It is also because several parameters used in the analysis, such as how many employees each business may employ in a given year and how many will be female, are likely to change in a dynamic labour market
- the analysis in this section focuses on private sector businesses.[2] This is because the potential costs of paid parental leave, (particularly if superannuation contributions are made mandatory), are of greater consequence for private sector businesses than for businesses in the public sector, given that private businesses do not have recourse to tax revenue to address any cost increases.

We used several datasets to estimate the number and proportion of businesses that have at least one female employee giving birth in a given year ('employee births'):

- ABS, *Births, Australia, 2007*, Cat. no. 3301.0
- ABS, *Labour Force, Australia, Detailed, Quarterly*, Nov 2008, Cat. no. 6291.0.55.003
- ABS, *Australian Industry, 2005-6*, Cat. no. 8155.0.[3]

We made an initial estimate of employee births by industry by using national age-specific fertility rates and data on the age and gender breakdown of each industry.

Secondly, we estimated the distribution of births within each industry across business sizes, based on data showing the breakdown of each industry by business

[1] It also relates to births, not confinements as in table K.1.

[2] Some calculations were also made for the public sector. However, two particular issues were evident. First, it is difficult to define a 'business' within the public sector. Second, a comprehensive dataset would be required at the levels of cost centres or workplaces to derive reliable measures. Clearly, all major departments are large employers that would expect at least one pregnancy per year. Estimates show 88 per cent of agencies in the Australian Public Service and 98 per cent of local government councils could expect at least one pregnancy per year.

[3] Some data for the Finance and Insurance Services industry were supplemented by ABS *Small Business in Australia, 2001*, Cat. no. 1321.0.

size, in terms of the aggregate numbers of both businesses and employees. Therefore, the expected aggregate births for each industry were divided into business sizes according to the distribution of employees across business sizes. This provided the expected aggregate number of births for each 'type' of business (for each size and industry).

From this, it is possible to derive the expected average number of employee births that an individual business of each type would have. For smaller businesses, this was always less than one. The expected average number of employee births was used as a parameter in a Poisson distribution,[4] thereby deriving the expected probability that a business of each type would have at least one employee birth. This final probability estimate was the basis for the expected numbers of businesses with employee births in a given year (tables K.1 to K.3).

We made several important assumptions in deriving these estimates:

- age and gender distributions differ between industries, but are constant within each industry across different business sizes
- the likelihood of having children for all women was assumed to follow the national age specific fertility rates
- the probability of observing an employee birth among a group of businesses is approximately proportional to how many businesses are in that group
- the probability of an employee birth within an individual business is consistent across similar businesses

The numbers of the self-employed giving birth

We also estimated the number of births among self-employed women in a similar fashion to those for employing businesses. The estimates were based on the age and gender profiles of 'own account workers' and 'employers' in each industry. Again, using national age-specific fertility rates, the expected number of births per self-employed woman was calculated. This latter figure was used as a parameter in a Poisson distribution, thereby providing a probability of births for self-employed women in each industry.

In the case of the self-employed, the main interest of the estimates is not in the possible compliance or other burdens on business stemming from the scheme, as the parties potentially affected by the scheme are also its (voluntary) beneficiaries.

4 The Poisson distribution was used as a means of estimating the distribution of pregnancies among businesses, given that information was available for the average number of pregnancies per business but not for other parameters such as variance.

Instead, these estimates indicate the extent to which a statutory paid parental leave scheme may benefit this part of the business community.

Results

Given that larger employers have more employees who have a chance of giving birth, not surprisingly, the percentage of small businesses with at least one employee birth is around one tenth of medium sized businesses and 1/16th of large businesses (table K.2).

Table K.2 **Businesses expected to have at least one employee birth in a given year by business size**
Private businesses

Business size	*Operating employing businesses*	*Expected operating employing businesses with at least one employee birth*	
	No.	No.	%
Small <20	810 388	49 393	6.1
Medium 21-199	39 441	23 687	60.1
Large 200+	3 395	3 391	99.9
Total	853 224	76 472	9.0

Source: Productivity Commission estimates based on ABS (*Births, Australia, 2007*, Cat. no. 3301.0); ABS (*Labour Force, Australia, Detailed, Quarterly*, Nov 2008, Cat. no. 6291.0.55.003); ABS (*Australian Industry, 2006-07*, Cat. no. 8155.0); ABS (*Small Business in Australia, 2001*, Cat. no. 1321.0).

The number of businesses with employee births differs considerably between industries (table K.2). This reflects the distribution of each industry's workforce and the distribution of business sizes. For instance, while the mining industry tends to have a relatively high proportion of male workers, it also tends to have larger businesses. By contrast, the manufacturing industry has a high proportion of female workers, but tends to have smaller businesses. For this reason, there is a greater percentage of businesses in the mining industry that would be expected to have at least one employee birth than in the manufacturing industry.

The number of expected births for self-employed women also differs between industries (K.3). This reflects three main areas where industries differ from each other:

- the age and gender distribution of employers
- the age and gender distribution of 'own account workers'
- the prevalence of employers and 'own account workers'

Industries with the highest number of expected births to self-employed women included property and business services, retail trade, and personal and other services.

Table K.3 **Businesses expected to have at least one employee birth in a given year by industry**

Private businesses

Industry	*Operating employing businesses*	*Operating employing businesses expected to have at least one employee birth*	
	No.	No.	%
Agriculture, forestry and fishing	69 874	1 525	2.2
Mining	2 987	369	12.3
Manufacturing	62 298	6 181	9.9
Electricity, gas and water supply	905	204	22.6
Construction	118 447	2 783	2.3
Wholesale trade	47 450	3 462	7.3
Retail trade	125 658	13 579	10.8
Accommodation, cafes and restaurants	40 558	6 850	16.9
Transport and storage	37 716	2 203	5.8
Finance and insurance services	35 547	3 400	9.6
Communication services	8 672	378	4.4
Property and business services	173 692	11 920	6.9
Education (private)	11 119	4 310	38.8
Health and community services (private)	55 132	12 153	22.0
Cultural and recreational services	20 229	2 449	12.1
Personal and other services	42 940	4 708	11.0
Total	853 224	76 472	9.0

Source: Commission estimates based on ABS (*Births, Australia, 2007*, Cat. no. 3301.0); ABS (*Labour Force, Australia, Detailed, Quarterly*, Nov 2008, Cat. no. 6291.0.55.003); ABS (*Australian Industry, 2006-7*, Cat. no. 8155.0); ABS (*Small Business in Australia, 2001*, Cat. no. 1321.0).

Table K.4 **Incidence of births to self-employed women by industry**
Private sector

Industry	*Expected births to own account workers*	*Expected births to employers*	*Expected births to total 'self employed'*
	No.	No.	No.
Agriculture, forestry and fishing	749	223	973
Mining	0	0	0
Manufacturing	578	153	731
Electricity, gas and water supply	15	0	15
Construction	890	353	1 242
Wholesale trade	163	133	296
Retail trade	1 237	792	2 029
Accommodation, cafes and restaurants	186	217	403
Transport and storage	212	62	274
Communication services	150	7	158
Finance and insurance	92	18	110
Property and business services	2 153	348	2 501
Government administration and defence	38	0	38
Education	463	89	552
Health and community services	1 243	202	1 445
Cultural and recreational services	675	51	726
Personal and other services	1 247	448	1 694
Total	10 093	3 096	13 188

Source: Commission estimates based on ABS (*Births, Australia, 2007*, Cat. no. 3301.0); ABS (*Labour Force, Australia, Detailed, Quarterly*, Nov 2008, Cat. no. 6291.0.55.003); ABS (*Australian Industry, 2006-7*, Cat. no. 8155.0); ABS (*Small Business in Australia, 2001*, Cat. no. 1321.0).

K.4 Conclusions

The experiences of businesses will differ by both size and industry. The likelihood that an individual business will have a birth to an employee in a given year depends on the share of women employed, their age profile, and number. Very large businesses are all but assured of having at least one birth to an employee in a given year, while the overwhelming majority (94 per cent) of small businesses are unlikely to have an employee birth in any given year. And when the tighter eligibility criteria applying to the paymaster function and any future super obligations are considered, some 96 per cent small businesses (table K.1) would not have to act as paymasters for the government in the statutory paid parental leave scheme in any given year.

The industries where businesses were most likely to have an employee birth were, not surprisingly, those with a greater proportion of very large businesses and/ or high rates of female employment. Similarly, the industries with the greatest number of expected births among self-employed women were those with greater concentration of young females, and with a greater share of the self-employed generally.