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Senate Standing Committees on Education and Employment
Via Parliament of Australia Portal

19 May 2023

Dear Sir/Madam,

Re: Potential Impacts of the Commonwealth Paid Parental Leave Scheme on Small Businesses and their Employees

We appreciate the opportunity to submit our contribute to the discussion on the Commonwealth Paid Parental Scheme and its potential impacts on our members and small business employees.

The Council of Small Business Organisations Australia (COSBOA) values the consultation process and the Government's commitment to addressing issues of concern for its members. These issues relate to the accessibility of the scheme for small business owners, its current administration, and the effects of paid parental leave on small businesses.

1. Introduction

1.1 Background

Small businesses are the heartbeat of the Australian economy, employing a significant portion of the workforce and contributing substantially to the nation's GDP.

Rural and regional small businesses face unique challenges in attracting and retaining staff. Addressing these challenges requires a comprehensive approach that considers the specific needs of small businesses in relation to staff absences and retention for their long-term viability and success.

We observe the changes from 1 July 2023 to the Services Australia administered scheme include:

1. Allowing partnered employees to claim a maximum of 20 weeks' pay between them, with each partner taking at least 2 weeks (except in some circumstances).
2. Introducing a \$350,000 family income limit (indexed annually from 1 July 2024) for claiming paid parental leave pay.
3. Expanding the eligibility rules for fathers or partners to claim paid parental leave pay.
4. Making the whole payment flexible so that eligible employees can claim it in multiple blocks until the child turns two (2).
5. Removing the requirement to return to work to be eligible for the entitlement.¹

¹ <https://www.fairwork.gov.au/newsroom/news/changes-to-the-paid-parental-leave-scheme#:~:text=More%20information-.What's%20changing,paid%20parental%20leave%20between%20them.>

1.2 Goal

COSBOA's objective is to provide well-informed recommendations to ensure the viability, productivity and success of Australia's small business community. We aim to highlight key considerations government in relation to an accessible, affordable, achievable, and manageable paid parental leave scheme for small businesses.

2. Executive Summary

COSBOA's submission underscores the critical role of accessible, affordable, and efficient human resources support services for Australian small businesses, particularly those in rural and regional areas. We recognise the profound impact of paid parental leave on the well-being of families and the broader community.

In the interest of supporting small businesses, we advocate for:

1. A fully government-funded paid parental leave scheme.
2. Such a scheme should be accessible, affordable, achievable, and manageable for small businesses. We understand that the implementation of paid parental leave can introduce administrative and financial challenges for small businesses, potentially impacting their operational effectiveness.

Therefore, it is essential that the government's paid parental leave scheme includes comprehensive support for small businesses. This support should assist them in managing or removing the costs and administrative responsibilities associated with providing paid parental leave to their employees. We firmly believe that a government-funded scheme of this nature would not only benefit small businesses and their employees but also contribute to a more equitable and prosperous society.

As the quantum of Parental Leave is increased, the burden upon small business will have negative impact. Government supported and administered Paid Parental Leave alleviates this negative impact.

In preparing this submission, COSBOA consulted with a range of stakeholders, including:

- The Pharmacy Guild
- Institute of Certified Bookkeepers (ICB)
- Family Business Australia (FBA)
- Massage & Myotherapy Australia (MMA)

Our consultations have reinforced our stance that the government's role in funding and supporting paid parental leave is crucial for the sustainability and success of Australia's small businesses community.

2.1 Key recommendations

COSBOA's key recommendations relating to changes to the Parental Leave Payment (PLP) Scheme and its impact on Australia's Small Businesses are that:

- Government assumes full responsibility for funding and administering the PLP scheme
- Services Australia assumes primary responsibility for administration of the PLP scheme.
- Eligible employees apply directly to Services Australia for the PLP, with Centrelink managing payments.

- Government continue to consult with the small business sector through Industry Associations and Peak Bodies.

3. Enquiry of Reference

The potential impacts of the Commonwealth Paid Parental Leave (PPL) scheme on small businesses and their employees, both before and after legislative changes come into effect from 1 July 2023, with particular reference to:

- a. the experiences of small businesses in administering the Parental Leave Payment (PLP) on behalf of the Commonwealth, including an assessment of any administrative impacts, cost impacts and any challenges transacting with Services Australia;
- b. the experiences of employees accessing the scheme and receiving the payment through their employer or through Services Australia;
- c. the relative contribution of current arrangements in preserving the relationship between small business employers and employees while an employee is on parental leave;
- d. current Commonwealth PPL arrangements acting as an incentive or disincentive to employment and boosting female workforce participation in small businesses;
- e. the merits and costs of an opt-in or opt-out model for small businesses to administer the Commonwealth PLP, or other arrangements that would help to alleviate any administrative or financial burdens;
- f. the process by which the Department of Social Services and Services Australia could best engage with small businesses and their employees in the design and implementation of any future changes to PPL policy; and
- g. any other related matter.²

3. Recommendations

3.1 Area of Inquiry 1 & 5

Area of Inquiry 1: Experiences of small businesses in administering the Parental Leave Payment (PLP) on behalf of the Commonwealth, including an assessment of any administrative impacts, cost impacts and any challenges transacting with Services Australia.

Area of Inquiry 5. The merits and costs of an opt-in or opt-out model for small businesses to administer the Commonwealth PLP, or other arrangements that would help to alleviate any administrative or financial burdens.

3.1.1 Background

Currently, employers administer 60% of the Federally funded PLP. Since the scheme's inception in 2011, small businesses have adjusted their HR systems, including software updates, to accommodate the PLP scheme. Some businesses have increased the parental leave benefits they offer as a result of the introduction of PPL. However, a small proportion of small businesses indicated that they had reduced or withdrawn their parental leave provisions following the introduction of PLP.

²https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/PaidParentalLeave/Terms_of_Reference

Small Businesses' views about the value of their role in the scheme remained mixed. While some businesses see benefits in terms of employee retention and seamless parental return to work, others are conscious only of the additional demands that the scheme places on them.

3.1.2 COSBOA's Position

COSBOA believe the proposed 1 July 2023 reforms to the PLP scheme provide an opportunity to alleviate the burden on small businesses from administering Paid Parental Leave and can be a positive step towards improving PPL.

3.1.3 Recommendations

COSBOA recommends giving small businesses the primary option to engage Services Australia from the outset and the secondary option to manage the PLP directly. This approach would greatly benefit small businesses, particularly those that are time-poor and under-resourced.

3.2 Area of Inquiry 2

The experiences of employees accessing the scheme and receiving the payment through their employer or through Services Australia.

3.2.1 Background

Services Australia currently administers forty percent (40%) of PLPs, leaving employers responsible for the remainder. Issues arising around payments via employers concern the administration of payments and their timeliness. A study of employee experiences reveals that most prime care givers (73%) received their payments through their employers, with care givers who received payments through their employer more likely to experience problems with their payments (54%) than those receiving their payments through Centrelink (26%).³

3.2.2 COSBOA's Position

COSBOA believes that Services Australia is better placed to assume a greater responsibility for the PLP scheme. This would free up resources for small businesses, alleviating the burden of administration while facilitating a more positive employee PLP experience.

3.2.3 Recommendations

COSBOA recommends that Services Australia administered PLP becomes the primary option for employees. It should be the employee's responsibility to apply for the scheme and Centrelink should be responsible for payments, as with other Federally-funded income benefit schemes.

3.3 Area of Inquiry 3

Area of Inquiry 3: The relative contribution of current arrangements in preserving the relationship between small business employers and employees while an employee is on parental leave.

³ https://www.dss.gov.au/sites/default/files/documents/12_2013/paid_parental_leave_evaluation.pdf

3.3.1 Background

A 2022 report by the National Australia Bank revealed that Australian business owners have yet to see an improvement in the labour shortage issue, with some believing it has worsened. The study, which surveyed 760 SMEs in the September quarter, found that almost four in ten (38%) believed the labour shortage would significantly impact their business in the next three months.⁴

One of the objectives of the PLP scheme is to improve retention rates for primary caregivers in their current (pre-birth) jobs. Research has found that PLP not only improves the probability of returning to paid work within a year after the birth of a child but also has a positive impact on the same-job retention rate.⁵

3.3.2 COSBOA's Position

There is a strong correlation between labour retention and access to PLP schemes. We have found that impacts are stronger for low-income women, those not eligible for employer-provided paid leave, self-employed women, and women on casual contracts.⁶

3.3.3 Recommendations

COSBOA recommends the government invest in Small Businesses' ability to offer PLP to marginalised employees, removing the burden of its administration. Investing in small businesses' ability to offer PLP to marginalised employees, without the burden of its administration, will improve job and skill retention.

3.4 Area of Inquiry 4

Area of Inquiry 4: Current Commonwealth PPL arrangements acting as an incentive or disincentive to employment and boosting female workforce participation in small businesses.

3.4.1 Background

The Australian PPL scheme was introduced on 1 January 2011 with the primary aim of extending mothers' time away from paid work following a birth while promoting their attachment to their employers and increasing lifetime attachment to the labour force.

Small businesses are the heartbeat of the Australian economy, employing a significant portion of the workforce and contributing substantially to the nation's GDP. According to a 2022 Xero and Accenture commissioned report, women now represent 36 per cent of small business owners, compared with 31 per cent in 2001.

According to a 2022 Xero and Accenture commissioned report, women now represent 36 per cent of small business owners, compared with 31 per cent in 2001. In the next decade an estimated 3.5 million

⁴ <https://news.nab.com.au/news/australian-businesses-still-struggling-to-fill-jobs/#:~:text=By%20state%2C%20four%20in%2010,Victoria%20and%20New%20South%20Wales.>

⁵ Barbara Broadway, Guyonne Kalb, Duncan McVicar & Bill Martin (2020) The Impact of Paid Parental Leave on Labor Supply and Employment Outcomes in Australia, *Feminist Economics*, 26:3, 30-65, DOI: [10.1080/13545701.2020.1718175](https://doi.org/10.1080/13545701.2020.1718175)

⁶ Ibid Broadway

small businesses will be registered by aspiring entrepreneurs. These businesses will contribute over \$60 billion per year in value added to the Australian economy by 2031 and will support up to 1 million jobs, or around 6 per cent of the nationwide labour market.⁷

3.4.2 COSBOA's Position

COSBOA recognises that women are essential to the small business sector and that the PLP scheme is pivotal to boosting their participation in micro markets and small businesses as entrepreneurs, owners, and employees.

3.4.3 Recommendation

COSBOA believes that further and increased investment in the PLP scheme, with Services Australia taking the lead in its administration, would encourage female entrepreneurship and enhance women's ability to establish and/or seek employment within the small business space. This will in turn result in tangible economic and social development benefits, particularly in rural, regional, and remote communities.

3.5 Area of Inquiry 6

Area of Inquiry 6. The process by which the Department of Social Services and Services Australia could best engage with small businesses and their employees in the design and implementation of any future changes to PPL policy.

3.5.1 Background

Due to the unique characteristics of small businesses, both geographically and in terms of resources, consultative and collaborative engagement with the sector heavily relies on representative bodies and associations.

3.5.2 COSBOA's Position

As Australia's national peak body representing exclusively small businesses, COSBOA takes great pride and interest in the consultative process. We value the opportunity that submissions like this one provide for us to advocate effectively for the interests of Australia's small business community, including entrepreneurs, sole traders, family businesses, microbusinesses, and their employees.

3.5.3 Recommendations

We recommend continued engagement with relevant industry associations, including COSBOA, as a direct channel to the small business sector. We encourage government to directly engage with industry associations and peak bodies, consult through industrial relations and PPL roundtables, and support research into the efficacy and impacts of PPL policy. By doing so, government can ensure the adoption of well-researched, best practice policies that adequately address the needs of small business.

⁷ <https://www.xero.com/content/dam/xero/pdfs/behind-small-business/where-opportunity-lies-report.pdf>

4. Conclusion

COSBOA acknowledges the government's commitment to addressing the concerns of small businesses and their employees. By working together, we believe government can alleviate the administrative burden of the PPL scheme on small businesses, enhance female participation in the small business sector, and promote the development of tailored and evidence-based policy.

By adopting the recommendations presented here, we believe the government can ensure that labour and skill retention remains the cornerstone of Australian small business community, supporting their long-term success and resilience in an ever-evolving dynamic economic landscape.

Yours sincerely,

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Chair of the Board

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