

BCA

Business Council of Australia

# Submission to Senate Select Committee Inquiry on Work and Care

September 2022

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# 1. About this submission

The Business Council of Australia represents Australia's largest employers. As such, our members are at the forefront of managing employer and employee obligations in relation to work and care. The BCA recognises the central importance of policy in relation to the caring economy in determining a wide-range of broader economic and social outcomes, such as labour force participation and productivity.

Work-care arrangements also loom as a significant issue for the federal budget given existing and prospective spending commitments in relation to childcare and paid parental leave. The Treasury's 2021 Intergenerational Report noted that in 2019-20, for every person aged over 65, there were 4 working-age people and this ratio is expected to fall to 2.7 by 2060-61. These demographic trends present a financial challenge for government, business and workers and highlight the importance of putting work and care arrangements on a sustainable long-run footing

The BCA note that the terms of reference for the inquiry are very broad. We also note that the Productivity Commission is currently inquiring into Carer Leave arrangements and urge the Senate Select Committee inquiry to take note of the Productivity Commission's recommendations when they become available. The BCA supports the government's commitment to a review of childcare by the Productivity Commission and a review of childcare fees by the ACCC.

The BCA welcomes the opportunity to highlight its policy positions in relation to elements of work-arrangements. Our submission primarily relates to items (a), (b), (c) and (e) of the terms of reference and are focused on childcare and paid parental leave.

# 2. Key recommendations

- The federal government proposed reference to the Productivity Commission should include terms of reference that examine the full range of issues in relation to childcare, the early childhood education system and its intersection with primary school education.
- The BCA has proposed extending paid parental leave to facilitate greater sharing of carer responsibilities between parents through:
  - 26 weeks paid parental leave allowance comprised of six weeks 'use it or lose it' provision for each parent.
  - This would include 12 weeks to share between both parents and an additional two weeks of bonus leave if the leave is shared
  - Single parents would receive the full 26-week entitlement.

# 3. Child Care

The cost, quality and availability of childcare plays a critical role in decisions about workforce participation and the ability of women to maintain, progress and advance in their careers.

We argue that a comprehensive approach is needed to improve the system. This includes addressing the barriers to participation such as affordability, the complexity of the system and ensuring that children are adequately supported at a critical stage of their development.

The Business Council believes the following principles should guide this reform:

- A world leading, integrated early childhood service delivery from birth to school
- The system must be accessible and affordable
- Invest in a skilled early childhood workforce that elevates the profession to attract and retain the best and brightest.
- Elevate the early childhood system on the national agenda and create arrangements across jurisdictions that are cohesive, evidenced based and family centric.

Until now, government has rightly focussed on a well targeted system. However, the COVID pandemic and ensuing labour shortages require a re-examination of this position while ensuring there is no further fragmentation in the system through the supply constraints, price increases and shortage of places.

Government and business need to develop and implement policies that entrench, support and promote the ability to meet these economic and social expectations. We argue there are four key areas that need further work to improve the childcare system:

- complexity of the taper rates, the subsidy and affordability;
- supply side, pricing and workforce issues;
- flexibility of the system for the modern family; and
- tasking the Productivity Commission to undertake a comprehensive review of the childcare and early childhood learning system.

## Complexity of the taper rates, the subsidy and affordability

A systemic issue in childcare remains the high out of pocket expenses, combined with other tax and welfare settings, that continue to almost pre-ordain working arrangements for families in a manner that are counterproductive to them as individuals and the economy more broadly.

The Business Council acknowledges the substantial investments the Federal Government has made in recent budgets to address out-of-pocket childcare costs. The previous Government's \$1.7 billion investment was particularly beneficial for families with two or more children and those impacted by the \$190,015 family income subsidy cap. We also note the government's intention to increase Child Care Subsidy rates from July 2023 and raise the maximum family income threshold.

However, more needs to be done to address affordability and reduce the complexity of Child Care Subsidy (CCS).

Reports by KPMG and the Grattan Institute estimated that the additional childcare costs and interactions with the tax and transfer system mean that mothers can lose between 80 and up to 100 per cent of their net pay from working on the fourth and fifth day across the income spectrum. This is a structural barrier which directly impacts on a part-time work choice rather than full-time.

Australia has always targeted or means-tested these large services. However, a range of second order problems are emerging, namely the complexity of the system, the taper rates and income testing cut-offs. The interplay of these factors can be a deterrent for women to work and an artificial barrier to advancement in the workforce.

Consideration could be given as to how further changes to the CCS could reduce the disincentives families face.

## Supply-side, price and workforce issues

The Business Council acknowledges the work that the Commonwealth and state governments are doing through the Education Ministers' meetings to address these issues.

Increases in childcare demand will create supply side and pricing issues. It is essential that these cost structures are understood.

The early childhood workforce is mostly made up of women and requires an investment in their skills development. Currently, the limited career progression opportunities and underinvestment in skills development sees high levels of staff turnover. The combination of these factors also impacts on the quality of education and care.

## Flexibility of the system for the modern family

The childcare and early childhood development system has been built around traditional working hours. Successive Governments have for decades tweaked the system to improve short term accessibility and affordability.

However, childcare continues to be fragmented, highly regulated, delivered through different levels of government, increasingly inequitable particularly for outer metropolitan families, outdated and no longer reflects the needs and aspirations of modern Australian families.

Ultimately, these band aid solutions have created an even more inflexible service system for families to navigate.

In their recent report *Starting Better: A Guarantee for Young Children and Families*, the Centre for Policy Development reported that in February 2021, almost 140,000 people in Australia who wanted paid employment cited childcare as the main reason they couldn't actively look for work. They further reported that 90 per cent of that cohort were women.

While most childcare centres have extended operating hours to 7am to 6pm on weekdays to reflect more people working increased hours and overtime, families that work non-standard working hours or extended hours will struggle with the rigidity and inflexibility of the system. This is a well understood issue when it comes to school hours and work arrangements.

ABS data in 2021 showed that more than a third of Australians usually worked extra hours or overtime, while almost a quarter were required to be on call or standby.<sup>7</sup> Further, the COVID-19 pandemic has also accelerated a change in working arrangements and fundamentally shifted the approach to flexible working.

A modern childcare and early childhood development system must reflect the needs of modern families. This includes families that work non-traditional hours, have shift work or are required to be on call also need to be able to access childcare and ensure their children are benefitting from the early childhood learning system. For example, ABS data show that the main reason women were not available to start work was they were caring for children.<sup>8</sup> For women not in the labour force, unemployed, or working part-time, the most important incentive to join or increase participation was access to childcare.<sup>9</sup> Not only will this deliver development outcomes for children, but also ensure families are able to maximise their participation in the workforce.

## Tasking the Productivity Commission to investigate childcare and the early childhood learning system

Our goal as a nation should be to have a world class early years childcare and childhood development system.

The evidence base clearly shows the impact of moderate to high level access to early childhood services on a child's development and by extension their subsequent success at school and trajectory into higher education attainment, employment and career progression.

Ninety per cent of brain growth occurs by the age of five. Digital skills which are critical to future success must be acquired and mastered by the time a child starts school. Yet, today, more than one fifth of Australian children are developmentally vulnerable by the time they start primary school.

These foundation years are critical to future success, not only for the individual, but for the economy as a whole.

There are a range of factors mitigating against achieving the ambition of delivering a world class early childhood service system. The current system is fragmented. Access to quality service delivery is location based with inner metropolitan areas better serviced than outer metropolitan and regional settings. Also, the interaction and intersection between services is patchy as the service system is operated by three levels of government.

If these issues are not addressed, we will continue to run up against supply constraints and create problems of price hikes and shortage of places making it difficult to set the reform agenda needed to create a 21st century service system that is responsive to the needs of modern families.

These matters were the focus of a Productivity Commission report into Child Care and Early Childhood Learning in 2015. In commissioning that Inquiry, the Federal Government requested the Productivity Commission examine: the intersection between early childhood learning and school transition; the efficacy of the systems' support for increasing workforce participation, especially for women; the impacts of location (regional versus metropolitan) on service accessibility; and sustainable funding arrangements for the sector.

However, the issues that the Productivity Commission investigated in 2015 have not been resolved. The system continues to be fragmented, highly regulated, delivered through different levels of government, increasingly inequitable particularly for outer metropolitan families, outdated and no longer reflective of the needs and aspirations of modern Australian families. Further, post COVID we need to re-examine how the system works as a whole and how the childcare system interacts with the early childhood learning system.

As a nation, we should be moving towards an early education development model which recognises the fundamental importance of the first five years of a child's development. If Australia moves to an early childhood education system that is universal and free, then this has implications for interaction with the childcare system, which is not.

For this reason, we propose that the government's reference to the Productivity Commission is comprehensive and takes in the following issues:

- the intersection of the childcare system and the early childhood development system complexity of current taper rates, the subsidy and affordability of the childcare system
- levels of investment required to deliver a quality and seamless system;
- the role that these two systems play in a child's development and consideration of universality of access;
- flexibility of the current systems for the modern family, with a focus on supporting non-standard working arrangements;
- the practicalities of a move to a system of early childhood development and its intersection with the primary school education system including assessment of demand pressures and supply constraints;
- best approaches to address workforce issues without causing supply constraints and pricing spikes;
- the quantum of service delivery that optimises children's early years development and by extension the investment requirement to meet future demand;
- reorientation of current investment in early childhood care and education to deliver maximum results for children and their families, particularly around access and affordability;
- underpinning the service system with a clear, sustainable, regulatory, planning and funding framework including analysis of transferring responsibility to State Government as recommended by New South Wales.
- Consideration should be given as to how further changes to the CCS could reduce the disincentives families face.

The Productivity Commission should examine the relationship between the childcare and early childhood systems and their intersection with primary school education:

- The objective of the review would be to consider universality in childcare and maximise flexibility to suit the needs of modern families, especially in a post- COVID work environment, while also optimising children's learning and development. As part of this, an immediate examination of the complexity of current taper rates, the subsidy and affordability of the childcare system.
- This work should examine the productivity gains associated with colocation of childcare, preschool and primary school, and streamlining regulations, as well as funding and financing models.
- A final report should contain a roadmap of reform that supports the concept of an early years guarantee for children and their families, including recommendations on the quantum of that service delivery.
- The Productivity Commission inquiry should be commenced immediately with a draft report published within 6 months and a final report within 12 months.

The Productivity Commission should examine the utility of transferring responsibility for the early childhood and childcare system to the States given their overarching responsibility for the school system.

## 4. Paid parental leave

Barriers to working mothers maintaining their connection to the workforce and advancing in their careers are multiple and often reflect entrenched cultural biases.

The current system acts as a barrier to workforce participation for two key reasons. First, there is a question around the adequacy of the current entitlement of up to 20 weeks. Second, the lopsided nature of paid parental leave (18 weeks for the 'primary carer,' by and large the mother, and 2 weeks for the partner) entrenches a gender inequality by almost dictating that the primary carer (mother) takes the bulk of the leave.

The combined effect of these two factors often sees parents struggle with return to work resulting in mothers electing to adjust their hours to part time work or exiting the workforce altogether. This has a direct impact on women's career advancement, income levels and future economic security.

The latest report by the Workplace Gender Equality Agency on Australia's gender equality scorecard 2020-

2021 found that while 91 per cent of organisations providing primary carer's leave make no distinction based on gender, women account for 88 per cent of all primary carer's leave taken and men account for 12 per cent.

Progress here will help to address the longstanding disparity between women and men's economic circumstances and importantly create a platform for cultural change in workplaces around shared primary carer responsibilities.

Restructuring the Commonwealth Paid Parental Leave (PPL) scheme is an important policy lever that can help change incentives and shift attitudes that impact on the distribution of care and work responsibilities within families. This in turn can help break down barriers to female workforce participation and advancement and help reduce gender pay gaps.

Australia's current system provides for 20 weeks (18 of those weeks generally paid to the mother and two weeks paid to the father as Dad and partner pay) paid at the minimum wage. It is one of the least generous in the OECD.

Concerningly, 99 per cent of females take the 18 weeks of Paid Parental leave with an equal percentage of male partners taking the two-week entitlement. There is flexibility under the scheme for greater sharing of responsibilities, but overseas experience shows that without a mechanism to incentivise a sharing of care by both parents current biases can be difficult to shift.

There is evidence internationally that incentivising more equal caring responsibilities prompts behavioural change. For example, when Canada introduced additional paid parental leave on a use it or lose it basis for the secondary carer it doubled the percentage of partners taking leave in the first year.

A key consideration for a future paid parental leave system should be embedding design features that promote a more equitable distribution of care in the longer term. A system that enables and incentivises both parents to share responsibility for caring will help shift traditional cultural and gender norms and see more women participating in the workforce and able to advance in their professions.

The Business Council is proposing a model where families will have a choice to determine what suits them best, including providing the opportunity for both parents to be given the opportunity to maintain a consistent attachment to their employer while they have young children.

In Australia, many large companies have already taken steps to expand their paid parental leave, offering up to six months parental leave to either parent, or in some cases companies have even removed the requirement for the claimant to be the primary carer.

Companies have reported that their progressive policies are paying dividends in the hunt for global talent. These more gender-neutral policy settings have enabled companies to recruit and retain the best and brightest. Importantly it recognises the needs of the modern family and equalises the role of both parents. Companies have reported significant increases in partner leave. The latest Workplace and Gender Equality Agency (WGEA) data show 60 per cent of companies with more than 100 employees offer paid parental leave, with the vast majority making paid leave equally available for both parents. Around 85 per cent of companies with more than 5,000 employees offer paid parental leave.

The Business Council supports an expansion of the scheme to facilitate sharing of care by both parents as outlined by the Grattan Institute. Grattan estimated costs and benefits of the scheme would:

- cost an additional \$600 million a year;
- contribute \$900 million to Australia's GDP through increased workforce participation and boost average lifetime earnings for mothers.

The likely biggest impact of this scheme would be for workers in small and medium businesses, including people who are self-employed, which accounts for approximately two-thirds of Australian workers. These smaller businesses are less likely to have the resources to invest in their staff through access to equal (or any) paid parental leave.

This proposal would make paid parental leave more widely available to fathers and partners in businesses that do not offer generous schemes already. If Government was to implement this recommendation, it will serve to further encourage and strengthen the resolve of businesses who are already moving in this direction.

Changes to PPL should be done in consultation with business and include provision for appropriate notice periods.

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