



Ai GROUP SUBMISSION

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Ai Group Submission to the Productivity Commission Inquiry into Child Care
and Early Childhood Learning

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About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million people. Ai Group members operate small, medium and large businesses across a range of industries.

Australian Industry Group contacts for this submission

Stephen Smith
Director - National Workplace Relations

Nicola Street
National Manager –
Workplace Relations Policy

Executive summary

Australian Industry Group (Ai Group) supports the Productivity Commission's Inquiry into Child Care and Early Childhood Learning. Employers have a strong and direct interest in ensuring that participation in the workforce is increased so as to address skill shortages and the issues that are arising due to Australia's ageing population.

Currently, access to affordable child care is a significant barrier to workforce participation, particularly for parents and carers who wish to work or work more hours. Ai Group believes childcare policy should:

- **maximize participation in the workforce**, including participation by mothers of pre-school aged children and other primary carers; and
- **provide the best possible early learning foundation for all children**, in order to improve future education, training and skill levels.

Some changes are needed to make Australia's childcare system more affordable and accessible to employees of Australian businesses.

Ai Group recommends that:

- The current Child Care Rebate should be retained without means testing. The Rebate is an effective incentive for parents and carers to participate in the workforce, including returning to work after periods of parental leave.
- Ai Group supports a review of childcare infrastructure to extend childcare availability over non-standard hours, given the prevalence of employees working shifts, on weekends and at other non-standard hours.
- Consideration should be given to extending the current fringe benefits tax exemption for on-site employer provided childcare to cover situations where several companies are located in the same building or estate, and such companies have jointly establish a centre to provide childcare for the employees of the participating companies.
- The potential should be explored for the current suite of benefits and rebates to be extended to a wider range of childcare types, such as suitably qualified and registered in-home nannies, for those who need in-home childcare for work purposes.
- The Government's proposed 'gold plated' Paid Parental Leave (PPL) Scheme should be abandoned and the existing PPL Scheme retained, which would allow additional funding to be devoted to childcare measures.

Australian Industry Group participation in this Inquiry

Australian Industry Group (Ai Group) welcomes the opportunity to provide a submission to the Productivity Commission's Inquiry into Child Care and Early Childhood Learning.

Ai Group and its affiliates have around 60,000 member businesses that employ in excess of 1.25 million employees in an expanding range of sectors including: manufacturing, engineering, construction, automotive, food, transport, information technology, telecommunications, aviation, labour hire, printing, defence, mining equipment and supplies, and other industries.

As employers, Ai Group's member businesses have a strong and direct interest in ensuring that their employees are able to attend work and can remain in the workforce after taking parental leave. Employers also have a strong and direct interest in ensuring that participation in the workforce is increased so as to address skill shortages and the issues that are arising due to Australia's ageing population. Access to affordable childcare by all Australian workers is vital if these objectives are to be achieved.

Employers also have an interest in promoting a well-educated, literate and numerate workforce. Early childhood learning is the first stage in our education system and performs an essential role in ensuring that our future workforce has the skills and knowledge needed by industry.

Ai Group policy principles for childcare and early childhood learning

Ai Group supports the following broad principles of policy design for childcare and early childhood learning, in the interests of all businesses, their employees and their families.

We believe childcare policy should seek to:

- **Maximize participation in the workforce**, including participation by mothers of pre-school aged children and other primary carers; and
- **Provide the best possible early learning foundation for children**, in order to improve future education, training and skill levels.

We agree with the Terms of Reference which note that our current childcare and early learning system requires improvement with regard to:

- **access** (including equality of access, flexibility of access and geographic distribution);
- **affordability** for families of various incomes, work arrangements and family types;
- **flexibility and choice** with regard to the type, location and hours of childcare;

- **quality** of pre-school childcare with regard to early child learning and development; and
- **fiscal sustainability**, with regard to the security, viability and efficiency of funding arrangements for individual childcare providers and for the childcare system.

Ai Group responses to the PC Issues Paper

1. **The contribution that access to affordable, high quality child care can make to:**
 - a. **Increased participation in the workforce, particularly for women**

The Productivity Commission's latest annual *Report on Government Services* (ROGS) for 2014 (released 28 Jan 2014) shows that access to suitable childcare continues to be a significant barrier to increased workforce participation for parents and especially for women with pre-school aged children. Indeed, the 2014 ROGS appears to show an increase in recent years in the number and proportion of children aged 12 years and under for whom their current childcare needs were not adequate; in 2008 an estimated 125,700 children aged 0 to 12 years required additional formal childcare and/or preschool (3.6% of all children in this age cohort), but this had increased to 598,000 children (16.4% of all children in this age cohort) in 2011. Around 615,000 children required additional formal childcare and another 400,000 required additional pre-school care (ROGS 2014, Table 3A.54).

In 2008, 46.9% of this unmet childcare requirement (affecting the families of 58,900 children aged 12 years or under) was due to work-related reasons including 'work, 'looking for work' and 'work-related study or training'. In 2001, this unmet demand for childcare due to work-related reasons had increased to 51% of all unmet childcare needs, affecting the families of 305,800 children (ROGS 2014, Table 3A.55). This means that as of 2011, the families of at least 300,000 Australian children were not able to participate in work or work-related study to the full extent that they desired due to lack of access to adequate and suitable childcare. In 2011, 24.5% of all families with unmet childcare needs said this was because the existing childcare was 'too expensive' (ROGS 2014, Table 3A.56).

Further data estimating the extent of the problem of inadequate childcare in relation to workforce participation is provided in the ABS publication *Barriers and Incentives to Labour Force Participation, Australia, July 2012 to June 2013* (Cat No. 6239.0, Nov 2013). These data show that in the 12 months to June 2013:

- 2.2 million people (around 18% of our total workforce) wanted a job or wanted to work more hours (that is, they were unemployed or underemployed) and were available to start work or to work more hours within the next four weeks. 1.2 million

of these people were however, not actively looking for work, with 'caring for children' (followed by 'studying') cited by 175,900 people as their main reason for not actively looking for work or looking for more work hours (the single most commonly cited reason). That is, they wanted to work or to increase their work hours in the next four weeks but were unable to even look for work due to their childcare responsibilities. 90% of this group were women and 21% of them said that childcare costs were their main barrier to seeking work. 17% said no childcare was available near them and 14.5% said their children were in the wrong age group for the childcare that was available (see Table 1 below).

- A further 452,400 people in this ABS survey said they wanted to work or to increase their work hours but were not available to do so within the next four weeks. 111,500 (24.6% of those who were not available) of this non-available group said that 'caring for children' was their main reason for not being available. These 111,500 people who could not work for childcare reasons accounted for 65% of the 170,600 people in this 'unavailable' group who had children under 15 years of age. 91% of the 111,500 people not available due to childcare barriers were women. 10% said childcare was too expensive for them to look for work while 16% said no childcare was available near them. Another 28% said their children were in the wrong age group for the childcare that was available (see Table 1 below).
- In total, this ABS survey found that 287,400 people wanted to work or to increase their work hours but were unable to do so due to their childcare commitments, in the year to June 2013. Indeed, childcare was one of the most widespread barriers to more employment, cited by 17% of all people who wanted to work or wanted more hours but were unable to do so or unable to look for work. Specific childcare barriers included the expense of childcare (the main barrier for 16%) and lack of locally available places (the main barrier for 17%). 90% of those who were locked out of work or who not able to increase their work hours due to childcare were women.

Table 1: Persons aged 18 years and over who want a job or want to work more hours, June 2013

<i>'000 persons</i>	Male	Female	Persons
<i>Available to start work or more hours within four weeks but not looking for work/more hours</i>			
Main reason for not looking = caring for children	17.5	158.4	175.9
- Childcare not available/booked out/not local	-	31.2	31.2
- Childcare too expensive	-	34.4	37.8
- Children too old/young for available childcare	-	21.4	25.6
Had children aged less than 15 years	-	337.6	438.5
Total not looking for work/more hours	430.7	797.6	1,228.3
<i>Not available to start work or more hours within four weeks</i>			
Main reason for not available = caring for children	9.7	101.8	111.5
- Childcare not available/booked out/not local	-	-	16.6
- Childcare too expensive	-	-	10.7
- Children too old/young for available childcare	-	-	28.0
Had children aged less than 15 years	-	-	170.5
Total not available for work/more hours in four weeks	175.9	276.5	452.4

Source: ABS 6239.0, *Barriers and Incentives to Labour Force Participation, Australia, July 2012 to June 2013* (Nov 2013). Tables 4 and 5.

b. Optimising children’s learning and development.

Ai Group notes that there is a large and well-established body of academic literature that demonstrates the importance of high-quality early childhood learning to later education, training and workforce outcomes for individuals.

2. The current and future need for childcare in Australia, including consideration of the following:

a. Hours parents work or study, or wish to work or study

The opportunity for parents and carers to work their desired hours is often made possible by the needs of their employer. In Ai Group’s experience, many employers who operate outside standard business hours face difficulties in recruiting and rostering employees who have no or limited access to either formal or informal child care. We make further comment on this below in sub-paragraphs (b) and (f).

Ai Group notes that ‘non-standard’ work hours are becoming more common across the economy as we move toward more employment in the services industries such as healthcare and retail that have longer and more variable operating hours. ABS data

indicates that as of November 2009 for example, 31% of all employees across the Australian economy (excluding self-employed owner operators) 'usually work on weekends' as of Nov 2009¹. This included 30.1% of employees who 'usually work on both weekends and weekdays' plus 0.1% who 'usually work on weekends only'. In 2009, 16.4% of all employees usually work on Saturday (one in six) while 9.6% (almost one in ten) usually work on Sunday. This high proportion suggests that although we might like to think of weekend work as 'non-standard', it is in fact a standard work arrangement for around a third of the Australian workforce (not including self-employed owner-operators, who have higher rates again).

Industry-level data indicates that in terms of the number of employees affected, regular weekend work arrangements are most common in health and welfare services (Australia's largest employing industry), retail trade (Australia's second largest employing industry), arts and recreational services, utilities and accommodation and food services. This reflects the need for 24 hours per day and/or seven days per week activity in these industries. These industries are also among the ones that employ the largest numbers and proportions of female workers, many of whom require childcare in order to work.

b. The particular needs of rural, regional and remote parents, as well as shift workers

Employers in remote, rural and regional areas generally have a smaller labour market from which to recruit and retain skilled staff. This is not helped where regional businesses cannot find skilled employees because of the shortage of appropriate and affordable childcare that would otherwise assist such employees to work.

In Ai Group's experience, some regional and smaller employers have, as a last resort to the shortage of appropriate and affordable childcare, allowed employees to bring children to the workplace. This is notwithstanding that the employer's work-site may not be appropriate or entirely safe for the care of children.

Under workplace health and safety laws, employers have a duty of care to all employees, contractors and visitors on site, and this would include children. Therefore while these informal on-site care arrangements may satisfy the immediate needs for employers and employees, they are not always a sustainable, safe or appropriate solution to both a skills and childcare shortage in regional areas.

¹ Source: ABS *Working Time Arrangements*, 6342.0, data to Nov 2009, released May 2010.

Our comments in relation to shiftworkers and others with variable work hours are in sub-paragraph (f) below.

c. Accessibility of affordable care

Data from the PC *ROGS* 2014 and from the ABS *Barriers and Incentives to Labour Force Participation* show that childcare affordability is a major barrier to participating in work or to increasing work hours for many women and for some men (see response to 1(a) above). The PC *ROGS* 2014 shows that even after subsidies are taken into account, the out-of-pocket costs of childcare for families with 1 child in full time centre-based long day care ranged from 7.4% of weekly disposable income in Queensland up to 13.9% in the ACT in 2013, depending upon the family’s gross annual income (see Table 2 below). Further detail on the weekly and hourly costs of childcare by type and location are available from the PC *ROGS* 2014.

Table 2: Out-of-pocket costs of child care for families with 1 or 2 children in full time centre-based long day care, % of weekly disposable income, by gross annual family income, 2013, after subsidies

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Aust</i>
One child in care									
\$35 000	10.0	9.7	7.4	10.2	7.9	7.6	13.8	8.6	9.1
\$55 000	9.5	9.3	7.4	9.7	7.8	7.5	12.7	8.4	8.8
\$75 000	9.2	9.1	7.5	9.4	7.9	7.6	12.8	8.3	8.6
\$95 000	8.9	8.8	7.5	9.1	7.8	7.6	13.1	8.1	8.4
\$115 000	9.8	9.6	7.7	10.1	7.9	7.7	13.7	8.4	8.9
\$135 000	10.5	10.3	8.3	10.7	8.7	8.4	13.9	9.3	9.7
Two children in care									
\$35 000	16.4	16.2	12.2	16.8	13.8	13.6	23.2	14.4	14.9
\$55 000	15.5	15.4	12.0	15.9	13.3	13.2	21.3	13.9	14.3
\$75 000	15.5	15.3	12.4	15.8	13.6	13.5	20.5	14.0	14.4
\$95 000	14.8	14.7	12.2	15.0	13.2	13.1	20.2	13.6	13.9
\$115 000	16.1	16.0	13.7	16.5	14.6	14.5	23.6	15.0	15.2
\$135 000	18.7	18.6	14.7	19.2	16.2	16.1	25.4	16.8	17.3

Source: PC, *ROGS* 2014 Table 3A.57 (Department of Education (unpublished) administrative data collection).

As a general principle, Ai Group supports Government measures aimed at making childcare more affordable and accessible for working parents. Business benefits from better childcare by recruiting from a larger labour market pool of skilled and experienced potential employees and by retaining their existing trained employees after such employees have been on parental leave.

Given the very high levels of current out of pocket costs relative to incomes, even after subsidies and the high numbers of potential workers citing childcare costs as a barrier to increased workforce participation (see discussion at 1(a) above), Ai Group supports the retention of the childcare rebate that is currently available to all parents with work or study commitments. Ai Group does not believe that this rebate should be means tested for equity reasons or needs to be means tested for budgetary reasons, because the current maximum cap on individual payments (\$7,500 per child per year) places an effective ceiling on the total potential cost of the rebate program. The maximum rebate cap also means that higher earning parents who typically use more expensive childcare do not tend to be reimbursed as much of their total childcare costs as do those on lower incomes. Ai Group is concerned that any move to introduce means testing for this rebate would, in practice, introduce yet another effective tax distortion for working parents, and create a disincentive for parents to work or to increase their work hours once they get near to the means testing thresholds, at whatever level they are set.

Ai Group does not support the current proposal for a ‘gold-plated’ PPL scheme that will likely benefit only some families and only some businesses. Ai Group members confirm that for most if not all businesses, it is access to childcare rather than the generosity of the national PPL scheme (which currently provides 18 weeks of paid maternity leave to all working new mothers) that is the main impediment to greater workforce participation among working parents.

Ai Group also remains opposed to the proposal to impose a levy on Australia’s largest businesses to partially finance the proposed PPL, as this would detract from their business investment and their contributions to growth and employment. Any additional government funding that becomes available should therefore be directed into additional childcare support rather than into additional PPL entitlements.

d. Types of childcare available including but not limited to: long day care, family day care, in home care including nannies and au pairs, mobile care, occasional care, and outside school hours care

Ai Group supports a variety of childcare types and childcare providers in recognition of the wide variety of differing family circumstances, working patterns and the increasing need for flexibility in the hours and the locations of childcare provision.

Ai Group recommends that this Inquiry explore the possibility of extending the current childcare benefits and rebates to in-home childcare (such as suitably qualified and accredited nannies employed by individual families or small groups of families) for those families that need in-home care for work purposes. Any such extension to current arrangements would need to ensure that the in-home care that is funded is of a suitable

standard and addresses other childcare objectives with regard to pre-school learning outcomes. It would need to be safeguarded for example, with strong registration and eligibility criteria for both the families using in-home childcare and the nannies who provide it (for example, by making it clear that any Government funded childcare provider cannot also provide cleaning or other paid home services at the same time, or ensuring only families who need such in-home care for work or study purposes receive funding for it).

Ai Group notes that businesses have employees who rely heavily on after school care. The current shortage in after school care vacancies, particularly in metropolitan areas and suburbs, places pressure on both employees and the resources of business to accommodate early finish times. Limited availability during school holidays is also an issue in some locations, with some school holiday programs offering services for some but not all of the school holiday dates (e.g. many are not available for all of January).

e. The role and potential for employer provided child care

The provision of formal on-site childcare by employers to their employees can enable employers to more easily attract and retain experienced and qualified employees. However, the employers providing on-site child care are relatively few and tend to be large companies.

The majority of Australian employers would not find it viable, or logistically possible to provide on-site childcare to their employees, notwithstanding the benefits that such care would offer in recruiting and retaining staff.

Many employers whose primary business is in an industry other than the childcare industry would find it difficult and costly to operate a childcare centre. The costs would include management time, compliance costs associated with childcare and safety regulations, insurance costs, property / leasing costs, finance costs, recruitment costs, training costs, and many others.

Also, many employees prefer to use childcare centres closer to home to more easily enable both parents to drop off and collect children. Childcare centres at one parent's workplace place the responsibility of dropping off and collecting the child upon one parent. This situation would not be ideal for many families with two working parents.

The problems of informal on-site childcare at an employer's workplace are identified above in sub-paragraph (b).

The current fringe benefits tax exemption for on-site employer provided childcare has been in place since 1986 but the take up rate has been extremely low given the very

tight eligibility criteria. Ai Group recommends that consideration be given to extending the exemption to cover situations where several companies are located in the same building or estate, and such companies decide to jointly establish a centre to provide childcare for the employees of the participating companies.

f. Usual hours of operation of each type of care

The current availability and accessibility of childcare does not meet the operational requirements of many Australian businesses and their ability to recruit and retain staff. The usual operating hours of childcare centres and long waiting lists for availability contribute to the difficulties faced by businesses and their employees.

The following working patterns are common within businesses, but are not supported by current accessibility and availability levels of childcare:

i) Permanent and rotating shift work involving early morning shifts, afternoon shifts and night shifts that may span over 24 hours per day, 7 days per week. These patterns are common for businesses in the manufacturing, transport, utilities and emergency services industries. Employers in these industries have difficulty in devising equitable and efficient rosters, and meeting operational requirements, where employees have no or limited access to informal or formal childcare at the required times.

ii) Weekend and public holiday work. Many businesses operate on weekends and public holidays. The employees of these businesses have limited options in accessing formal childcare over these periods, causing operational difficulties for employers. As noted above, the rise of services employment such as healthcare and retail means that 30% or more of Australian workers now work on weekends as part of their normal rostered week.

While some employees may choose not to use childcare as a form of care on weekends, we support more flexible childcare hours to provide employees and businesses with options, particularly where weekends form part of a working week for some families, or for sole parent families with limited access to informal childcare arrangements.

iii) Unscheduled early morning hours or evening hours associated with the nature of professional, managerial and other work, including work-required travel. In such cases, childcare centres generally do not accommodate early starts or late finishes for employees, placing pressure on employees and businesses.

iv) Irregular, less predictable hours or short-term contract hours associated with project work, seasonal work or temporary peaks of production. The cost of formal care through childcare centres (e.g. long day care) is generally charged on a daily basis

limiting the shorter use of formal care, for example, on an hourly basis. Further, the extensive waiting periods for available places at long day care centres often means that employees who work as contractors, or for short unexpected periods have difficulty finding care when they need it. Businesses are adversely impacted by these constraints on employees when important projects or work is required at little notice.

ABS data indicate that 37% of all employees across the Australian economy (excluding self-employed owner operators) 'had hours that varied weekly or they were usually required to be on call or standby' as of Nov 2009. In the same ABS survey in 2009, 41.5% of all employees were able to negotiate their work hours with their employer and 39.3% of employees were able to work extra hours as time in lieu for time taken off. Of the 37% of employees with variable work hours, over 35% were given four weeks or more notice of their work schedule, 30% were given one to four weeks' notice and 34% were given less than 1 week's notice of their work schedule (another 1% reported they had a variable notice period).

v) Job-share arrangements for part-time employees (commonly parents returning to work from parental leave) whereby nominated days are required of employees for an effective job-share arrangement, but childcare availability on such days may not be available. This limits an employer's ability to accommodate job-share arrangements for parents returning to work part-time.

vi) Off-site remote work requiring travel, for example, fly in - fly out work, is generally not supported by current levels of formal childcare infrastructure. Retaining and attracting skilled employees for remote work is therefore from a limited labour market.

Ai Group supports a review of childcare infrastructure to enable business to more easily attract and retain skilled and experienced employees. The increasing operational demand for skilled work over non-standard hours is placing considerable pressure on both businesses and employees. The extension of childcare availability over non-standard hours is a measure Ai Group would support to increase participation in the workforce and to enable employees to more effectively meet work and family responsibilities.

g. The out of pocket cost of childcare to families

Data from the PC *ROGS* 2014 and from the ABS *Barriers and Incentives to Labour Force Participation* show that childcare affordability is a major barrier to participating in work or to increasing work hours for many women and for some men, even after childcare subsidies are taken into account (see responses to 1.(a) and 2(c) above).

Australian businesses benefit from retaining skilled, trained and experienced employees following periods of parental leave. Ai Group notes that a significant factor in determining whether employees return to work after a period of parental leave is the cost of childcare relative to income earned on the employee's return. The cost of childcare should be affordable to employees, enabling them to return to work if they choose.

h. Rebates and subsidies available for each type of care

Ai Group supports measures that make childcare more affordable and therefore make returning to work after parental leave easier for employees. We also support the ability of parents to choose from a range of childcare types and providers to suit their needs.

While the Child Care Benefit and Child Care Rebate are available for care through registered child care centres, we note that families who choose to employ nannies in their own homes are not entitled to such rebates. With some inner city childcare centres charging up to \$160 per day per child, home-based nannies may be a viable alternative for families with more than one child requiring care or requiring extended or 'non-standard' childcare hours (e.g. for shift workers). One-on-one or small group home-based childcare by nannies may also be more suitable for working parents of children with special needs, although we note that separate funding for care is often available in these cases.

Ai Group therefore recommends that this Inquiry explore the potential for the current suite of benefits and rebates to be extended to a wider range of childcare arrangements, such as suitably qualified and registered in-home nannies or shared in-home care, for those who need home-based childcare for work purposes.

i. Interactions with relevant Australian Government policies and programmes.

The Government should not review childcare arrangements without regard to other existing or foreshadowed policies and programs that relate to parental leave and income payments.

We note that the Government's proposal to expand the existing PPL scheme will provide funding to families who have very young children, notwithstanding that there is a government-funded PPL scheme already in place, on top of which many larger businesses provide their own additional PPL scheme to eligible employees.

The idea that 3,000 companies will be required to fund a scheme for the whole community is unfair. It would undoubtedly have adverse flow-on effects across the whole economy through higher prices and reduced investment. The existing PPL Scheme

which provides 18 weeks' pay at the level of the National Minimum Wage was introduced with the support of Ai Group and is working well.

Ai Group believes that the broader community, including the business community, will be better served if any available additional funding is devoted to childcare provision rather than to an expanded government PPL scheme. This is because working parents incur substantial child care costs over a very long period of time (typically up until high school age) after returning to work. Government-funded PPL can only ever be available for a short time at the beginning of this period and can only ever help with the beginning of the typical family's childcare costs. Ai Group believes there is a clear benefit for both business and families in making childcare more accessible and affordable for all employees, even if that must come at the expense of other, related Government programs such as an enhanced PPL scheme, due to budgetary constraints.

4. Options for enhancing the choices available to Australian families as to how they receive child care support, so that this can occur in the manner most suitable to their individual family circumstances. Mechanisms to be considered include subsidies, rebates and tax deductions, to improve the accessibility, flexibility and affordability of child care for families facing individual circumstances.

This issue is addressed in the previous sections of this submission.