

BCA

Business Council of Australia

Productivity Commission Draft Report

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Contents

1.	Overview.....	2
2.	Key recommendations.....	2
3.	Early childhood development and learning.....	3
3.1	Universal early childhood education.....	3
4.	Childcare that supports workforce participation.....	4
4.1	Affordability, taper rates and subsidies.....	4
4.2	Childcare supply and workforce.....	5
4.3	System flexibility for the modern family.....	6

1. Overview

Preparing and caring for our future generations, while supporting more adults into the workforce, is critical to our future prosperity. This is why the Business Council of Australia (BCA) welcomes the opportunity to comment on the Productivity Commission (PC)'s draft report on Early Childhood and Care (ECEC).

Our economy depends on our capacity to address workforce participation issues. These include the adaptability of that workforce, increasing women's participation and overall productivity and innovation.

The BCA has consistently called for a 21st century childcare and early education system that caters to the needs of a modern family. The provision of an affordable, accessible and quality childcare system is fundamental to our nation's success. It plays a critical role in parents' decisions about workforce participation, the ability of women to progress and advance in their careers, and the productivity and adaptability of the future workforce.

We know how important the first five years of development are to the long-term education outcomes of children. A contemporary, universal ECEC system would maximise the human talent pipeline of our nation and ensure no one is left behind. At the same time, we recognise the supply, workforce, costing and staging challenges in developing a universal ECEC system.

For this reason, we are broadly supportive of the recommendations made in the Productivity Commission's draft report. However, careful consideration should be given to calls for additional government funding and recommendations should be assessed against their net benefits to the economy.

2. Key recommendations

We support the Productivity Commission's approach to reforming the ECEC system and offer the following recommendations:

- Develop an 'early childhood guarantee' to provide quality services for families with children aged up to five years.
 - Enable all children 0-5 years access to three days (up to 30 hours) a week of affordable, high quality ECEC.
 - Support moves to reform the Child Care Subsidy (CCS) to reduce the disincentives families face.
- This must be accompanied by an ECEC national workforce strategy that increase the number of educators available to work and improves retention in the sector – including improved incentives for services to operate during non-standard hours.
- Consider shifting early childhood care, education and schooling funding exclusively to the states, while the Commonwealth progressively takes responsibility for the tertiary education system.
 - This could be implemented via the PC's recommendation for a National Partnership Agreement on Early Childhood Education and Care, which would outline their respective roles and responsibilities as stewards of the system, as well as the objectives all governments seek to achieve in ECEC.

3. Early childhood development and learning

The first five years of a child's life are vital to their lifelong success and their contribution to Australia's economy. Our goal as a nation should be to have a world class early years childcare and childhood development system.

Early childhood education is essential to ensuring young Australians have the foundational skills to develop the competencies they will need over their lifetime. In fact, 90 per cent of brain development occurs by the age of five. Digital skills that are critical to future success must be acquired and mastered by the time a child starts school.

Minderoo's Thrive by Five and the Centre for Policy Development's research illustrates the importance of moderate to high-level access to early childhood services on a child's development and, by extension, their success at school and into higher education, employment and career progression. It is a significant lever when it comes to addressing entrenched disadvantage.

Yet, two out of 10 children enter primary school developmentally vulnerable in at least one area, such as language and cognitive skills, communication, physical health and wellbeing or general knowledge. One out of 10 is vulnerable in two indicators.¹ Many children struggle once they enter primary school and secondary education because they lack basic reading, writing, maths and digital literacy skills.

This problem is exacerbated in children from disadvantaged backgrounds, as noted throughout the PC's draft findings. The BCA supports the PC placing significant emphasis on the importance of early childhood learning in its final report.

3.1 Universal early childhood education

Australia does not have uniform, universal access to preschool services across all states and territories. States have different age requirements and education costs, resulting in a disjointed system where some children are left behind. For example, some jurisdictions have rolled out kindergarten for three-year-olds while in other jurisdictions kindergarten starts later.

The BCA agrees with the PC's recommendation to move Australia towards universally accessible early childhood education. Enabling all children to access three days (up to 30 hours) a week of affordable, high quality ECEC will help support children and families.

We believe a universal ECEC is best delivered via an 'early childhood guarantee' for families with children aged up to five years. As stated in [Seize the moment](#), the BCA believes key elements of the guarantee including cost, demand, access, subsidy design, interface with the school system, trained workforce and the role of the Commonwealth and the states will need to be examined.

The early childhood education guarantee should be based on the following principles:

- A world-leading, integrated early childhood service delivered from birth to school.
- An accessible and affordable system.
- A system that invests in a skilled early childhood workforce that elevates the profession and attracts talent.
- A focus on putting early childhood education firmly on the national agenda and creating arrangements across jurisdictions that are cohesive, evidenced based and family centric.

The early childhood guarantee could be achieved through the PC's recommendation to reform the CCS to reduce the disincentives families face.

¹ Home - Thrive By Five

The PC could consider recommending state/territory responsibility for early childhood care, education and schooling funding, with Commonwealth transitioning to full responsibility for the tertiary education system. This would provide flexibility to cater to local requirements and challenges in the ECEC system.

We support the proposal for a new National Partnership Agreement on Early Childhood Education and Care between Australian, state and territory governments to outline their respective roles and responsibilities as stewards of the system.

4. Childcare that supports workforce participation

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

Successive governments have for decades tweaked the ECEC system to improve short term accessibility and affordability. However, childcare continues to be fragmented, highly regulated, increasingly inequitable (particularly for outer metropolitan children), outdated and no longer reflective of the needs and aspirations of modern Australian families. Ultimately, these band-aid solutions have created an inflexible and confusing system for families to navigate.

Women's workforce participation bears the brunt of the economic and social trade-off between work and care. It remains the main barrier to women joining the workforce, increasing their hours of work, and advancing to reach their full potential.

The Australian Bureau of Statistics (ABS) reports that caring for children is the main reason women are unavailable to start a job or work more hours.² While caring for children is the main barrier for around 25 per cent of women, it is a barrier for just 0.2 per cent of men.

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. 90 per cent of that cohort were women.

It is no secret that the current system acts as a disincentive for workforce participation, particularly for women.

We argue that improving the childcare system, and subsequently Australia's workforce participation and productivity, requires reform in three key areas:

- Complexity of the taper rates, the subsidy and affordability.
- Supply side, pricing and workforce issues.
- Flexibility of the system for the modern family.

4.1 Affordability, taper rates and subsidies

A systemic issue in childcare is the high out-of-pocket expenses, combined with other tax and welfare settings, that continue to disincentivise workforce participation.

Australia has for decades targeted or means-tested childcare services. However, the complexity of the system, the taper rates and income testing cut-offs – and the interplay of these factors – can be a deterrent for women to work and an artificial barrier to advancement in the workforce.

Some of the current tax and transfer settings create a 'workforce disincentive rate' (WDR) because of implications for family support payments, higher marginal tax rates and a lower tax-free threshold, and loss of

² ABS, 2022, *Barriers and Incentives to Labour Force Participation, Australia*

benefits such as concession cards, health cards and the like. The WDR is particularly evident in lower-income families.

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 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 that directly impacts a part-time work choice rather than full time.

Likewise, families often assess the return to work based on the cost of care versus the post-tax income of the carer returning to work (often the lowest earner, often female). Unless the carer is breaking even with childcare costs at the very least (which can be around \$134 per day in capital cities³), there is little economic benefit for returning to work. Even in high income households where tax benefits are not available, there is a disincentive.

The PC's draft report notes that relaxing the activity test for all families and increasing subsidy rates for low-income families will lead to an increase of 12% in the hours ECEC children attend, and around a 3.4% increase in total hours worked (equivalent to 20,700 full-time employees) by single parents and secondary earners in couple families with young children. The PC expects this policy "will most likely deliver benefits to Australian children, families and the broader community that exceed the costs of policy change".

However, increases in childcare demand as a result of these funding reforms will likely exacerbate supply challenges. It is essential these structural supply-side issues are addressed within the broader reform agenda.

4.2 Childcare supply and workforce

Access to quality childcare service delivery varies in different parts of the country. Inner metropolitan areas are far better serviced than outer metropolitan and regional settings. In regional and remote Australia, there are many communities with limited or no local childcare services.

Even where services are present, access to quality childcare is still a challenge for many families. Childcare places are often limited or subject to long waiting lists. And as the PC's draft report notes, services operating in remote and socio-economically disadvantaged areas are even less likely to meet quality standards.

The ECEC workforce is largely female, low paid with limited career progression, and facing significant workforce shortages. Lack of staff is a contributing factor to the supply issues facing the sector.

The BCA acknowledges work underway at the Commonwealth and state levels to overcome supply issues (particularly in thin markets) and develop workforce strategies for the early childhood education and care sectors. It is essential that parents seeking work are not hampered by a lack of childcare availability.

We agree with the PC's assessment that workforce issues – current employees and those who are expected to enter the sector in coming years – should be the first priority of ECEC reform. Higher wages and better conditions are likely to reduce attrition rates and attract more staff to ECEC. We advocate the need for a national ECEC workforce strategy.

Improving qualification pathways to enable more people to work in the sector is essential. Government, business, and the tertiary sector must work together with training providers to develop microcredentials in a range of specialisations to support new skills and career progression in ECEC. We agree that ECEC educators studying to become teachers should be offered accelerated pathways and greater flexibility to complete their qualifications while working.

³ ACC, Childcare Inquiry, December 2023, page 23 - [ACCC Childcare Inquiry-final report December 2023.pdf](#) - (accessed 26/02/24)

4.3 System flexibility for the modern family

The childcare and early childhood development system has been built around traditional working hours and there is little flexibility in the system.

While most childcare centres have extended operating hours from 7am to 6pm on weekdays to reflect increased work hours and overtime, families that work non-standard 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.⁴ Further, the COVID-19 pandemic 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. Families that work non-traditional hours, have shift work or are required to be on call also need to access childcare and ensure their children are benefiting from the early childhood learning system.

The BCA supports the PC's recommendation to remove impediments to the provision of flexible services, such as wrap-around care in dedicated preschools. It is vital to improve incentives for services to operate during nonstandard hours. Though we note this may not resolve childcare issues for shift-workers.

⁴ ABS, Working arrangements

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GPO Box 1472, Melbourne 3001 T 03 8664 2664 F 03 8664 2666 www.bca.com.au

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