

DCA’s submission on the

Productivity Commission’s

*Childcare and Early Childhood Learning*

Draft Report

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1. Introduction

***DCA strongly urges the Productivity Commission to encourage the Australian Government to maintain a focus on expanding options for accessible, affordable and high quality childcare which offers mothers and their partners the ability to remain engaged in the paid workforce.***

In general, DCA supports the Commission's recommended approach to ECEC of recommending regulatory reforms and available Australian Government budgeted ECEC assistance be targeted to where there is the greatest potential to enhance the accessibility and/or affordability of ECEC.

However, we are disappointed that greater attention has not been given to the issue of encouraging greater employer engagement in the provision and support of childcare.

As we emphasised in our earlier submission, the availability, affordability and accessibility of childcare is an issue frequently raised by DCA members and other employers as a major challenge, especially in relation to parents returning to paid work following parental leave.

We note the Commission’s estimate that there may be up to 165 000 parents (on a full time equivalent basis) who would like to work, or work more hours, but are not able to do so because they are experiencing difficulties with the cost of, or access to, suitable childcare

It is clear that women still face significant barriers to their inclusion in employment, both directly through discrimination and indirectly through the way employment is structured and how this interfaces with the role many women play as bearers of children and as carers of infants, children, the aged and family members with a disability.

The accessibility and affordability of childcare has significant implications not only on the immediate participation of many women in the paid workforce but can have long term and irreversible impacts on their career progression, income and lifelong financial security.

As the [Workplace Gender Equality Agency](https://www.wgea.gov.au/sites/default/files/2014-03-04_PP_Pay_Gap_and_Parenting.pdf) has highlighted in a recent paper, while the gender pay gap affects most women in the workforce to some degree over the course of their working lives, it is during the years when many women are balancing paid work with unpaid caring responsibilities in the home that the gender pay gap widens considerably. Becoming a mother begins to impact on women’s earnings and career progression from the time they first fall pregnant. In a [recent review of the literature](http://www.dca.org.au/News/News/The-motherhood-penalty%3A--Why-mothers-face-the-widest-gender-pay-gap-/426), DCA has found a growing body of evidence about the ‘motherhood penalty’ – the impact that bearing and raising children has on women's wages including that:

* Raising children accounts for a 17% loss in lifetime wages for women, with the kind of work many mothers undertake not only being lower-paid than the work they did prior to having children, but also frequently not reflecting their abilities, education levels or work experience.
* In Australia, the wage gap among mothers has been analysed by a number of studies using Household, Income and Labour Dynamics in Australia (HILDA) survey data to reveal that each child lowers women’s wages – with estimates varying from 4% for the first child, to 9% for two or more children.
* The level of penalty is linked with the length of maternity leave taken. While the immediate wage-penalty effect following childbirth can be explained in part because of the large number of women – 84% in Australia – who work part time when their child is under two, the effect persists with analysis suggesting that the wage penalty emerges over time through reduced wage growth.
* The effect begins when women are pregnant, with recent data from the Australian Human Rights Commission showing that half of all women experience discrimination at work during pregnancy, parental leave or on return to work.
* U.K. research shows that for every year a woman spends away from employment on ‘family caring work’, there is an average wage penalty of 1% and an extended effect on longer term earnings. Similarly, U.S. wage penalties of between 5% and 7% per child have been identified.
* The highest penalty is found among women with only high school education, suggesting a key determining factor may be an inability to negotiate workplace flexibility with which to meet family responsibilities.

With the release of [average weekly earnings data](http://www.abs.gov.au/AUSSTATS/abs%40.nsf/DetailsPage/6302.0May%202014?OpenDocument) from the Australian Bureau of Statistics (Cat No. 6302.0) in recent weeks showing the gender pay gap has risen to the highest level in 30 years (18.2% or $283.20 per week), is it clearly critical that strong measures are taken to support mothers to maintain high levels of workforce attachment.

1. Response to the Draft Report & Recommendations

## 2.1 Simplification of payments

DCA supports the Commission’s view that funding for the existing medley of Australian Government ECEC assistance programs be simplified, combined and directed to three priority areas:

* Mainstream ECEC support via a single child-based subsidy that is means- and activity-tested, paid directly to the family's choice of approved services (including for OSHC and approved in-home care), for up to 100 hours per fortnight, and based on a reasonable cost of delivering ECEC for each age of child in different ECEC types,
* a 'top-up' subsidy for children with additional needs and
* federal support to the states and territories for all children to attend an approved preschool program in the year prior to school.

Most of the parents who responded to our member survey on the Inquiry felt that the system of financial support for parents could be simplified, with more than 55% agreeing that eligibility requirements for financial support were inappropriate or unclear and less than 45% agreeing that working out eligibility, applying for assistance and/or reporting changes in their circumstances (that may impact on eligibility, such as work, training, study, or income) was straightforward.

## 2.2 Workplace Flexibility:

DCA welcomes the emphasis in the draft report on the importance of workplace flexibility

The recent release of the [Australian Human Rights Commission’s](https://www.humanrights.gov.au/supporting-working-parents-pregnancy-and-return-work-national-review-0) review of discrimination related to pregnancy, parental leave and return to work illustrates the high levels of difficulty experienced by parents in accessing flexible working arrangements. With half (49%) of all mothers in the prevalence data study indicating they had experienced discrimination while pregnant, on parental leave or on their return to work, it is clear that many women are still not able to combine adequately meeting their care responsibilities for young children while in the paid workforce.

DCA strongly supports the Commission’s view that:

*Improving the flexibility of ECEC arrangements should be complemented by improvements in the flexibility of workplaces for parents and others with caring responsibilities.* P29.

And *Draft Recommendation 6.1* that

*The Fair Work Ombudsman, and employer and employee associations should trial innovative approaches to:*

*• increase awareness about the ‘right to request flexible work arrangements’ and individual flexibility arrangements under the Fair Work Act 2009 and National Employment Standards*

*• promote positive attitudes among employers, employees and the wider community towards parents, particularly fathers, taking up flexible work and other family-friendly arrangements.*

However it is important to reiterate (as outlined in our earlier submission) that the Fair Work Act, has not proved to date to be a particularly useful provision for the vast majority of employees despite [subsequent amendments](file://\\ausyd0800\common$\dca\Research\Issues%20Advocacy\Productivity%20Commission%20Childcare%20Inquiry%202013-14\From%201%20July%202013.%20See%20http:\www.fairwork.gov.au\media-centre\enewsletter\fwo-enewsletter-issue-11\pages\reminder-changes-to-flexible-work-arrangements-you-should-know-about.aspx.) to the FWA to extend the right to request flexibility to a broader group of employees.

While DCA is strongly supportive of efforts to promote flexibility among employers and the broader community, it is clear that relying on the promotion of minimum provisions in the Fair Work Act is unlikely to engender substantive increase in the availability of flexible working in Australia.

As outlined in our earlier submission, in a [recent survey](http://w3.unisa.edu.au/hawkeinstitute/cwl/documents/AWALI2012-National.pdf) of nearly 2,900 working Australians only three in ten employees were aware the right to request flexibility existed, with the number even lower among mothers of preschool children, the key target group. And use of the entitlement is not increasing over time with the survey showing that in 2009, before the right was introduced, 22.4% of respondents asked for flexible work over the previous year, but in 2012 only 20.6% of those surveyed had made a request.

Of critical importance,there remains no meaningful review of employer refusals to grant requests which might assist in changing the culture around flexible working.

In relation to the Commission’s *Information request 6.1*

*The Commission seeks participants’ views on impediments to employers providing flexible work arrangements for parents.*

DCA would suggest the Commission review DCA’s recent research projects *Get Flexible: Mainstreaming Flexible Work in Australian Business* (2012) and *Men Get Flexible* (2012) which consider the barriers and enablers of meaningful flexible work and careers in Australian workplaces.

While these research reports have been produced for the benefit of DCA members, we would be very happy to provide a copy to the Commission for your review on request. Please contact our Research Director, Dr Jane O’Leary at jane@dca.org.au or on 0403 050 586 to request a copy of the report or to discuss our research further.

## 2.3 Tax Arrangements

As DCA indicated in our earlier submission, one of the most frequent comments from employers responding to our ECEC survey about the most significant ways in which the Government could assist them in relation to ECEC, related to the current tax arrangements for employer supported childcare. Employers indicated that they would like to do more to assist with childcare but cited the current regulatory framework as impeding their efforts.

### 2.3.1 FBT

**DCA has strong concerns about the Commission’s *Draft Recommendation 12.1***that

*The Australian Government should remove section 47(2) from the Fringe Benefits Tax Act 1986, that is, the eligibility for Fringe Benefit Tax concessions for employer provided ECEC services. It should retain section 47(8), which enables businesses to purchase access rights for children of their employees without this being considered an expenditure subject to the Fringe Benefits Tax.*

At a time when, childcare availability and affordability are increasingly critical, it is difficult to understand why the Commission would recommend the removal of one of the only policy levers designed to encourage employers to take a role in the provision of childcare. As highlighted in the most recent [AMP/NATSEM](https://www.amp.com.au/wps/amp/au/FileProxy?vigurl=/vgn-ext-templating/fileMetadataInterface?ids=d89972e18e5c6410VgnVCM1000004320220aRCRD) report, demand for childcare continues to increasingly substantially -77% since 1996 - and remains unaffordable for many parents, with the average cost having increased 150% in the last decade.

DCA is of the view that this recommendation – in the absence of any alternative proposal - sends completely the wrong message to employers, effectively encouraging them to vacate the field in terms of providing childcare.

We also note the Commission’s rationale that

…*this provision provides a largely non-transparent benefit to a small number of families typically on very high incomes…* P41

While acknowledging that the provision is only used by a small number of parents, the families who access childcare supplied by their employer are precluded from accessing CCB or CCR, and as such, are not ‘double-dipping.’

It is difficult to understand why this recommendation should be prioritised given that, as the Commission notes

*…the revenue generated by a removal of this exemption is likely to be fairly low, as it is not currently widely used…*P41

DCA also notes that as the Commission has explained, the

*… advantage of this approach over tax deductibility is that it will involve employers in assisting their workers to access ECEC services. This may influence employer and employee attitudes about workplace flexibility that is important for increasing workforce participation of parents.* P513

DCA is pleased to acknowledge and support the Commission’s point that

*… other ways of encouraging employers to support their employee’s access to ECEC services should be encouraged. This includes retaining FBT 47(8), which enables businesses to obtain priority access for children of their employees without this being considered an expenditure subject to FBT, and clarifying what constitutes legitimate business expenditures for tax purposes.* P513

And notes the Commission’s suggestion that

*One key measure that is available and tax deductable to employers at present, which could be more widely taken up (if known about and places were available), is the capacity to reserve places at nearby ECEC services for use by their staff with children.* P29

DCA supports greater promotion of these arrangements to employers.

However, while *the role and potential for employer provided child care* was specifically detailed as a matter for consideration in the terms of reference for the Inquiry, DCA is disappointed to note that there has been little put forward that would encourage employers to take a greater role in provision of ECEC. We note that some consideration has been given to international models designed to encourage employers to play a greater role in the provision of childcare, for example

*…the ECEC system of the Netherlands as an example where there is substantial employer involvement in the funding of childcare. In 2004, over two thirds of childcare places in the Netherlands were bought by firms for use by their employees (Warner and Raymond 2011). Changes to government policy in 2005 requested that Dutch employers contribute one-third of the childcare fees of their employees. Initially this requirement was not legally binding, however, in January 2007, legislation was introduced to make employer contributions mandatory through a supplementary tax (Hein and Cassirer 2010). Consequently, while the proportion of childcare places that are purchased by Dutch firms has fallen sharply, employers still fund a substantial proportion of the ECE system in the Netherlands (estimated at around 21 per cent of total childcare costs) (Department for Education - UK 2013a).*

*In addition, other OECD countries use concessional tax treatment to encourage employer sponsored childcare. In the United Kingdom, childcare fully provided by an employer is exempt from tax and (capped) taxation exemptions exist for firms that offer childcare vouchers to their employees, or make direct payments to childcare providers on behalf of their employees. Estimates in 2004 suggested that around 7 per cent of UK firms provided workplace care and about 8 per cent provided financial assistance to parents to source care, however, in light of recent policy changes, this number has likely increased (Hein 2010).*

*In the United States, employers are eligible for a tax credit of up to 25 per cent of their capital and operating costs of either providing onsite childcare facilities or for purchasing childcare services for their employees up to a maximum credit of $US150 000. Some states offer additional offsets against state taxation liabilities (Land-Kazlauskas 2010). Likewise, France offers employers a tax credit of 50 per cent if they operate a company crèche (Department for Education - UK 2013a).*

However the only substantive recommendation from the Commission in this area seems to go against this trend by removing one of the only existing incentives to encourage Australia employers from playing a role in the providing and supporting childcare for their employees.

### 2.3.2 Tax Deductibility

Along with a large number of comments in relation to the importance tax arrangements, many respondents specifically raised the issue of tax deductibility. Ninety three percent of employers told us that they thought childcare expenses should be tax deductible for families, as did a number of parents. We acknowledge that this may reflect DCA’s membership base and that the individuals who are likely to respond on behalf of their organisations may be in high income brackets, however it also reflects a legitimate concern that childcare is a genuine employment related expense if a person has children younger than school age and no alternative family care available.

**DCA supports a choice being provided to employees to either opt for the mainstream/special needs top up payment as recommended by the Commission, or tax deductibility of child care expenses via their personal income tax return.**

While we understand the Commission’s case that tax deductibility would be more regressive than the current system, we believe there is scope to appropriately target such a scheme in a way that would facilitate low income families’ continued access ECEC, but also encourage highly educated and well paid women who have the primary responsibility for childcare to maintain their attachment to the paid workforce.

The business case for increasing the numbers of women in senior leadership is now well established. Melbourne Business School’s Centre for Ethical Leadership has released a major review of the evidence for the [business case](http://www.mbs.edu/facultyresearch/ethicalleadership/Documents/GEP%20-%20Building%20a%20Business%20case%20for%20Diversity.pdf) for gender diversity and numerous [studies](http://www.biac.org/members/elsa/mtg/2012-02-workshop/OECD_Background_Paper_for_the_Worksho.pdf) have found [links](http://www.catalyst.org/knowledge/why-diversity-matters) between [gender diversity](https://www.credit-suisse.com/newsletter/doc/gender_diversity.pdf), particularly from a [governance perspective](http://www.calpers-governance.org/docs-sof/marketinitiatives/resources/bottom-line-corp-perform-and-womens-representation-on-boards-2004-2008.pdf), and enhanced [organisational](http://onlinelibrary.wiley.com/doi/10.1111/j.1467-8683.2010.00784.x/abstract) and [financial performance](https://www.mckinseyquarterly.com/Is_there_a_payoff_from_top-team_diversity_2954).  The [Reibey Institute](http://www.reibeyinstitute.org.au/)’s investigation into gender diversity and financial performance in Australian ASX listed companies found a clear link between greater diversity and improved financial performance. Reasons explaining these links include that diversity brings together varied perspectives, producing more holistic analysis of [organisational challenges](http://www.deloitte.com/view/en_au/au/87c4e2a523340310VgnVCM3000001c56f00aRCRD.htm), encouraging greater engagement and improved decision-making. Analysts have attributed the better performance of boards with women to [higher risk aversion and lower debt](https://www.credit-suisse.com/newsletter/doc/gender_diversity.pdf), which particularly paid off during the global economic downturn.

However, the issue of workplace gender equality in respect of women leaders and those in senior roles is a real problem and one which continues to challenge both governments and the private sector. The Commission’s assumption that women in senior roles will continue to participate in the paid workforce, regardless of the impact of childcare costs, is not borne out in the experience of many DCA members. And it is clear that the impact of even short periods out of the paid workforce caring for children has significant and well documented implications on the careers of many prospective women leaders.

Failing to provide an ECEC system which supports high income as well as low income women, fails to recognise the importance of creating an incentive for high performing women and those in the leadership pipeline to stay fully engaged with the paid workforce.

While DCA appreciates the Commission’s argument about the income regressive nature of tax deductibility, we believe that sufficient considerations has not been given to the possibility of either offering a choice to parents, or combining deductibility with a tax credit or cash payment to ameliorate any inequitable impact for low income families.

As the report notes,

*Tax credits are fairly commonly used to improve the affordability of ECEC services, for example, in the United States, the United Kingdom, the Netherlands, France and New Zealand.*

Further,

*In principle, tax credits can be designed to be progressive, paying a higher dollar rebate or offset to workers on lower incomes. They could also include a means test so that once an individual’s income exceeded a certain threshold, they would no longer be eligible to claim the rebate.*

We are also not convinced that implementing a hybrid system of this kind would necessarily involve greater administration and compliance costs that the current arrangements. Individuals already claim a wide range of work related expenses through their income tax returns, and it is difficult to envisage that offering the option of claiming work related childcare expenses in the same way would make any appreciable difference to the ATO’s current activities.

DCA also notes that the Commission’s modelling assumes a median deemed cost of providing services of $60 per day. While this may well be a national median cost, for parents in high cost and high demand locations such as inner Sydney or Melbourne, the cost of childcare is regularly twice this. The modelling behind the recommended subsidy, thus also has implications in terms of the impact on more senior women on high incomes who are likely to incur much higher childcare costs than the median.

* 1. Extending Care Subsidies

DCA is pleased to support the Commission’s *Draft Recommendation 8.5* to extend mainstream support to qualified nanny services where these meet appropriate quality standards.

*Governments should allow approved nannies to become an eligible service for which families can receive ECEC assistance. Those families who do not wish their nanny to meet National Quality Standards would not be eligible for assistance toward the costs of their nanny.*

*National Quality Framework requirements for nannies should be determined by ACECQA and should include a minimum qualification requirement of a relevant (ECEC related) certificate III, or equivalent, and the same staff ratios as are currently present for family day care services.*

*Assessments of regulatory compliance should be based on both random and targeted inspections by regulatory authorities.*

The availability of ECEC services which could be sufficiently flexible to meet the needs of many families’ circumstances was raised by many parents in DCA’s survey of member organisations. This was particularly the case where parents needed childcare for more than once young child (especially in the case of twins or more), where parents worked non-standard hours, travelled extensively for work or were employed in rural or remote locations.

Parent respondents strongly supported a broader range of care options being made available and supported by the government, with more than 80% stating that they felt that support should be extended to types of childcare not currently funded or that funding should be increased for specific types of childcare — in particular nannies providing in-home care and family members providing care.

Parents were also supportive of ensuring that nanny type ECEC services were of high quality by introducing a mechanism to support quality in in-home care.

## 2.5 Preschool & Outside School Hours Care

While acknowledging the policy rationale for a 15 hour per week universal entitlement to preschool, there is no doubt that the current arrangements causes a great deal of difficulty for parents in paid work and ensures that many mothers are unable to return to the paid workforce on any other than a very part time basis until their children begin primary school.

DCA welcomes the Commission’s recommendation that

*For those schools with attached preschools, OSHC should extend to preschool children, as the 15 hours per week over part days that most dedicated preschools operate currently makes workforce participation of at least one parent nearly impossible.* p29

A number of parents who responded to our survey specifically mentioned pre-school hours as a problem.

While strongly supporting moves to broaden the availability of OSHC, DCA has some concerns about Commission’s *Draft Recommendation 8.2* that

*State and territory governments should direct all schools to take responsibility for organising the provision of an outside school hours care service for their students (including students in attached preschools), where demand is sufficiently large for a service to be viable.*

 As the Commission has heard, the critical issue in relation to OSHC is that of availability with many schools having no provision of OSHC at their school or locally, or insufficient places, given the number of children at the school needing care. This reflects the experience of DCA members and their employees also.

However, while making schools responsible for the provision of OSHC may be desirable in theory, as the Commission notes, the support currently provided by schools for these services appears to vary widely. In the absence of any proposal about how principals (and their school communities) might be offered some encouragement or funding support to take on this responsibility, DCA is concerned that there will be little incentive for schools to change current arrangements (if any) for OSHC.

1. Conclusion

DCA strongly supports this Inquiry as a way assessing the options for greater support for childcare. Our members tell us it is one of the greatest issues impacting on the participation of women employees in their organisations and in addressing gender equity in Australia.

However, to reiterate, we are disappointed that greater attention has not been given to the issue of encouraging greater employer engagement in the provision and support of childcare.

As the international models demonstrate, there is considerable potential for employers to make a greater contribution and given Australia’s ageing workforce, tight labour market and relatively low rates of workforce participation for women of child-bearing age, retaining women in the workforce has never been more important, for our nation and for employers.

As [The Grattan Institute](http://grattan.edu.au/wp-content/uploads/2014/04/Game_Changers_Web.pdf) has noted, increasing the labour market participation of women, particularly mothers, in Australia offers one of the two greatest opportunities to increase our nation’s productivity and childcare has an enormous impact on female workforce participation.

DCA encourages the Productivity Commission to ensure that Australian Government maintains a focus on ECEC policies and programs which support businesses, as well as directly assisting parents, to enable mothers with childcare responsibilities to contribute to the best of their capacity to our nation’s workplaces.