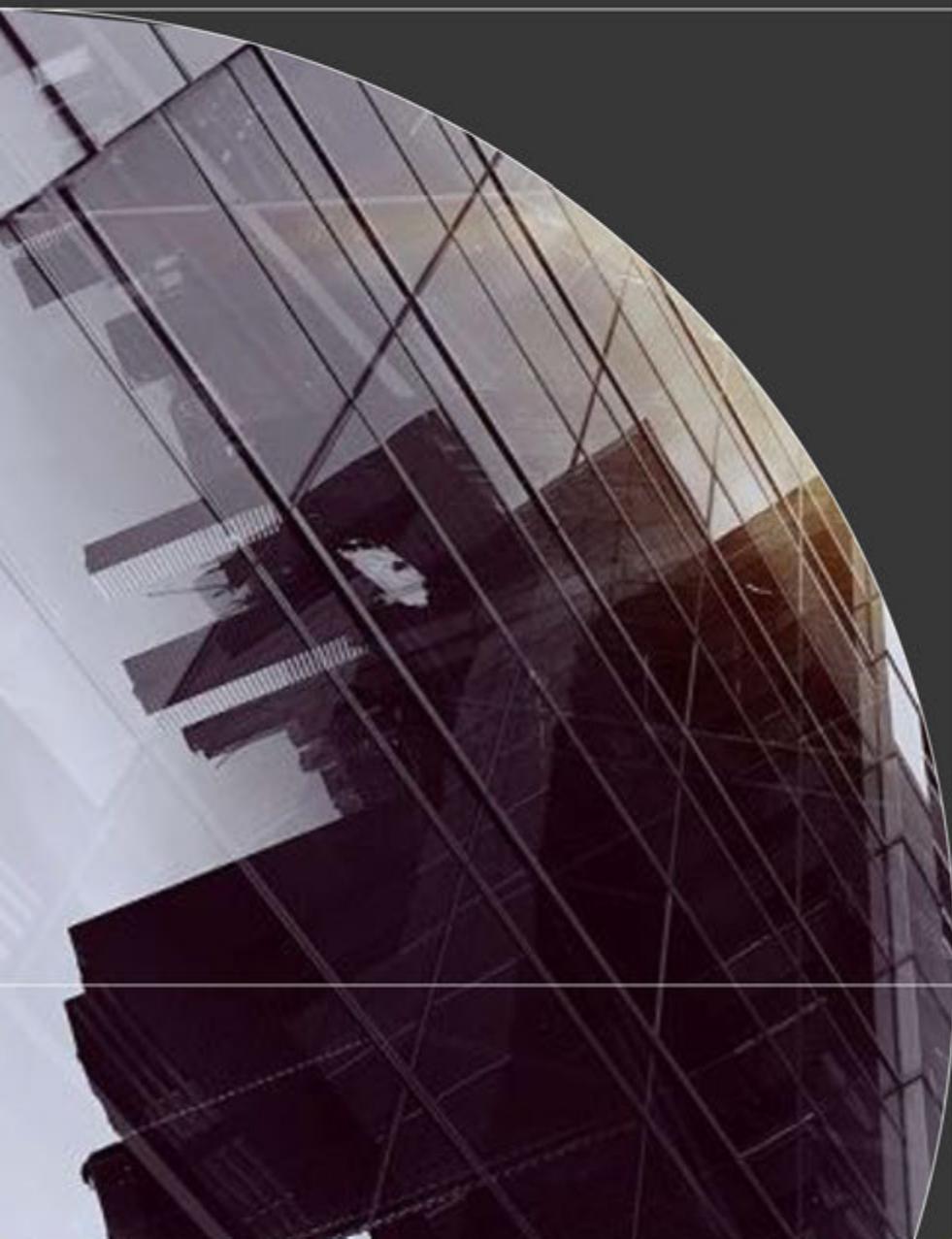


Inquiry into Early Childhood Education and Care

Business Council of Australia Submission

May 2023



BCA

Business Council of Australia

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1. About this submission

This is an initial submission by the Business Council and addresses the Productivity Commission's Terms of Reference for the inquiry into Early Childhood Education and Care (ECEC).

The BCA believes that maximising our talent and empowering future generations to participate and advance in the workforce will be central to our nation's success.

The provision of an affordable and accessible and quality child care system is fundamental to that goal. It plays a critical role in decisions about workforce participation and the ability of women to progress and advance in their careers as well as the productivity and adaptability of the future workforce.

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

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

2. Key recommendations

Recommendation 1: Early Childhood Education and Care

The BCA believes the following objectives should guide reform in ECEC:

- A world leading, integrated early childhood service delivery system from birth to school that is accessible, affordable and delivers a world class learning environment, including for curriculum and pedagogy.
- 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.
- Any PC final report should contain a reform roadmap that supports the concept of an early years guarantee for children and their families. This should canvass recommendations on the quantum of that service delivery, including the specific requirements of services in rural and remote locations as well as the needs of Indigenous child and family services.

Recommendation 2: Child Care as a structural barrier

- The PC's review on the Early Childhood and Child Care should consider the flexibility of the current systems for the modern family.

Recommendation 3: Child care subsidy and the tax and transfer system

- Consideration could be given as to how further changes to the CCS could reduce the disincentives families face. The BCA recommends reviewing workforce disincentives and gender inequity embedded in the tax and transfer system as it relates to child care.

Recommendation 4: Workforce issues

- While recognising that the current structures and funding controls for the care industry are primarily set by government, the BCA supports the need for a broader, more sustainable approach to the ECEC sector more broadly through the development of national workforce strategies.
- As part of this work, we believe there is scope to elevate these care roles through technological advancements, digital capabilities, telecare, better monitoring of the care and support workforce and mechanisms for remuneration and productivity uplifts.

3. Why early childhood education and care is critical to unlocking potential and powering growth

Our economic growth, competitive advantage and future prosperity rests on our capacity to address workforce participation issues including the adaptability of that workforce, increasing women's participation and overall productivity and innovation. These matters are addressed in detail in the PC's Advancing Prosperity Inquiry.

The BCA's interest in ECEC is twofold. One element relates to ensuring we are maximising the human talent pipeline of our nation and leaving no one behind. The second relates to child care as a structural barrier to women's participation in the workforce.

We believe that huge gains are to be made if we can get the structural and policy settings right.

We commend the government for tasking the PC with an extensive review into Early Childhood Education and Care. The BCA has consistently called for a 21st century model of child care and early education development system that reflects the needs of a modern family.

Investing in early childhood development is an important economic reform.

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

The child care 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, child care 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.

The BCA supports the work done by the Centre for Policy Development titled "Starting Better" in relation to the ECEC section of that report.

3.1 Early Childhood Development

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.

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.

These matters were the focus of a PC report into Child Care and Early Childhood Learning in 2015. In commissioning that Inquiry, the federal government requested the PC 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 the PC 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 child care system interacts with the early childhood learning system.

Given the importance of early childhood development, we commend the Federal Government for the reforms it is pursuing in early education and child care.

Recommendations

The BCA believes the following objectives should guide reform in ECEC:

- A world leading, integrated early childhood service delivery system from birth to school that is accessible, affordable and delivers a world class learning environment, including for curriculum and pedagogy.
- 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.
- Any PC final report should contain a reform roadmap that supports the concept of an early years guarantee for children and their families. This should canvass recommendations on the quantum of that service delivery, including the specific requirements of services in rural and remote locations as well as the needs of Indigenous child and family services.

3.2 Child care that supports career progression

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

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.¹ Caring for children has been cited as the main structural barrier to workforce participation for women for the decade since the ABS began collecting this data. 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.

It is no secret that the current system acts as a disincentive for women's workforce participation, as it does for men's participation in early years childcaring.

We argue there are three key areas that need further work to improve the child care system:

- complexity of the taper rates, the subsidy and affordability
- supply side, pricing and workforce issues, and
- flexibility of the system for the modern family.

A modern child care and early childhood development system must reflect the needs of a modern family.

While most child care 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. These families need to be able to access child care and ensure their children are benefitting from the early childhood learning system. Relatedly, the high employment rates are creating their own set of pressures for families who need to access child care.

Increases in child care demand will create supply side and pricing issues, particular where access to child care places and workforce shortages remain issues. It is essential that these cost structures are understood.

Until now government has rightly focussed on a well targeted system. However, the current employment landscape and labour shortages requires 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.

Recommendation

- The PC's review on the Early Childhood and Child Care should consider the flexibility of the current systems for the modern family.

¹ ABS, 2022, *Barriers and Incentives to Labour Force Participation, Australia*

3.3 The tax and transfer system

Both the PC and the Henry Tax Review identified that increasing women's participation in the workforce warranted reform of the tax and transfer system including in relation to child care.

A systemic issue remains the high out-of-pocket expenses which combined with other tax and welfare settings, almost pre-ordain working arrangements for families, in a manner that is counterproductive to them and the economy.

The BCA acknowledges the substantial investments the Commonwealth Government has made in recent budgets to address out-of-pocket child care costs.

However, more needs to be done to address affordability and reduce the complexity of the child care subsidy (CCS).

Australia has always targeted or means-tested these large services. However, a range of second order problems are emerging - 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.

Relatedly, for families receiving welfare payments, improvements within that system must look beyond a single payment and consider how the range and complexity of the additional allowances and reduce disincentives to work (including through the interaction of the tax and transfer system).

The Business Council has supported changes the Government has made to a variety of programs such as Parents Next, Single Parent Payments and Mutual obligations. We believe that income support should not be punitive. Equally, it is important that the changes do not diminish the capacity of people to get a job.

As stated recently by Dr Steven Kennedy PSM, Secretary to the Treasury "if we want to improve incentives for secondary earners and income support recipients then we must navigate the 'iron triangle' of means testing. This describes the three way trade-off between the adequacy of government payments (including for supporting job search), the costs for taxpayers and the disincentives for people to get off the payment by earning income".²

Some of the current tax and transfer settings can 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 benefits such as Pensioner concession cards, Health cards and the like.

We are on record recommending changes to the complexity of taper rates and subsidies for families.

The BCA supports the re-examination of the interplay between the tax and transfer system and workforce participation/disincentives.

Recommendation:

- Consideration could be given as to how further changes to the CCS could reduce the disincentives families face. The BCA recommends reviewing workforce disincentives and gender inequity embedded in the tax and transfer system as it relates to child care.

3.4 Workforce issues

The ECEC workforce is largely female dominated, low paid and facing significant workforce shortages.

Key characteristics of the care and support workforce are as follows:

- 92.1 per cent of the early childhood and care workforce are female.
- The average age of all ECEC workers was 37 for females and 32 years for males.

² Dr Steven Kennedy PSM, Secretary to the Treasury, Address to the Policy Research Conference, April 2023.

- Majority of staff receive the award wage. Just above a quarter receive between 10 to above 25 per cent above the award.
- 84.8 per cent of the workforce had an ECEC related qualification, including 11.9 per cent with a Bachelor Degree and above and 14.1 per cent with a Degree. 23 per cent were studying for a qualification.
- The average years of experience in the ECEC sector for qualified staff was 7.2 years.”³

A recent detailed Care and Workforce Labour Market Study by the former Skills Commissioner demonstrates the need for a more sustainable and long-term vision by government, industry and education providers in order to address systemic issues in the care sector more broadly.

Similarly, the recently released PC report *Advancing Prosperity: 5 year Productivity Inquiry* underscores the need to activate a national workforce strategy that addresses workforce needs, skills and capability, remuneration, sources of labour, workplace practices and demarcation.

Job satisfaction, high workloads and work pressures, inadequate staffing and skill mixes are matters which have been highlighted in a variety of reports on the Early Childhood and Care sector. Opportunities for progression are mixed resulting in exits from the workforce.

Professional development opportunities could be greater if there were attendant changes to job design that better reflected workforce capability uplift and opportunities for technology to drive change.

The BCA acknowledges work underway at the Commonwealth and state levels to develop workforce strategies for the anticipated future employment opportunities in the early childhood education and care sectors.

We advocate the need for a national workforce strategy for this sector and the care sector more broadly to ensure a cohesive approach to addressing these issues.

Significantly it will also allow for an agreed approach to the continuous quality improvement in the sectors. It will also unlock an array of lifelong learning opportunities.

Government, business, and the tertiary sector must work together with training providers to develop micro credentials in a range of industry specific specialisations to support new skills, career progression and higher remuneration in these sectors.

If we don't address these issues, 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.

Recommendations:

- While recognising that the current structures and funding controls for the care industry are primarily set by government, the BCA supports the need for a broader, more sustainable approach to the ECEC sector more broadly through the development of national workforce strategies.
- As part of this work, we believe there is scope to elevate these care roles through technological advancements, digital capabilities, telecare, better monitoring of the care and support workforce and mechanisms for remuneration and productivity uplifts.

³ 2021 Early Childhood Education and Care National Workforce Census, The Social Research Centre, published in 2022.

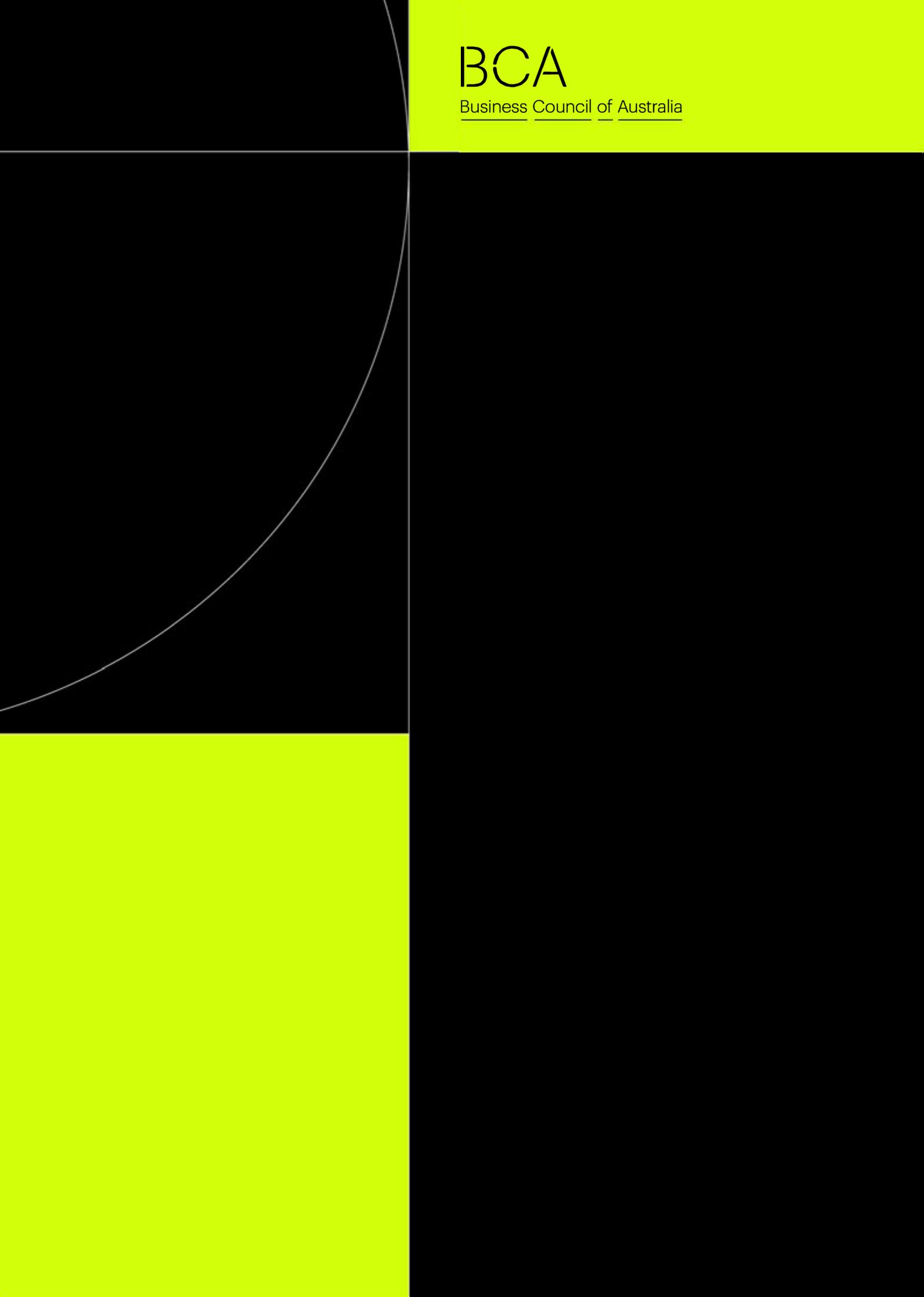
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