

Submission to the Productivity Commission of Australia

Inquiry into Child Care and Early Childhood Learning

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Introduction

The Workplace Gender Equality Agency (the Agency) is pleased to provide its submission to the Productivity Commission's Inquiry into Child Care and Early Childhood Learning in Australia. In this document, we seek to address those elements in the Scope of Inquiry that are congruent with the Agency's work. The cornerstone of this congruency is the workforce participation of parents, and the roles that childcare and workplace flexibility play in this.

This submission has been developed based on the Agency's vision for women and men to be equally represented, valued and rewarded in the workplace. The expectations inherent in that vision which have been used to frame this submission are:

- that gender equality in the workplace is relevant and important to the success and well-being of both women and men
- that parents who want to maintain their investment in the workforce should not be under pressure to give up part or all of their workforce participation in order to look after their families, pressure which often impacts most strongly on mothers
- that the active engagement and equal participation of fathers in family life is fundamental to the successful balancing of work and family for both partners
- that flexibility in working arrangements is a key factor in helping both parents to manage their work and family responsibilities
- that the availability of affordable, accessible and flexible childcare is essential for both parents to maintain their paid work commitments in addition to their family responsibilities.

Although the Productivity Commission's Terms of Reference focus on the workforce participation of women, the Agency takes the view that workforce participation of both women and men is affected by issues that are specific to childcare. In many cases, while women may be affected to the extent that they are more likely to give up paid employment to look after children, men may be less able to reduce their paid work commitment to allow them to take on more of a family caring role. The Agency also takes the view that equal participation in the workforce requires equal participation of women and men in family caring work. For these reasons, in this submission we use gender-neutral language that focuses on the experience of parents, rather than exclusively on women, as much as possible.

The Agency is also aware that, while this review is about early childhood, the issues that surround childcare in the years before the start of formal schooling continue – and in many respects, become worse – as parents negotiate school schedules and long holidays. The ongoing difficulty of finding acceptable care for children outside of normal school hours and over school holidays aggravates the negative impact of problems encountered with childcare prior to the start of formal schooling. While these issues are not within the remit of this submission, they are problems that should be addressed at some point in any comprehensive review of the childcare system.

Key Recommendations

Having undertaken a comprehensive review of recent research into aspects of Australia's childcare system and their interactions with workforce participation, and taking into account the Agency's long experience in working with organisations and individuals to help improve workplace gender equality in Australia, the Agency makes the following recommendations:

Accessibility

That childcare accessibility should be improved by:

1. extending hours of availability to better meet the needs of today's workplaces
2. extending the geographical reach of childcare services into regional and remote Australia, particularly regions where ample employment may be available in concentrated areas, such as happens in the mining industry

3. ensuring that childcare services are available that meet the needs of parents who do not work standard hours (e.g. shiftworkers)
4. ensuring that the types of care available – e.g. long day care and out-of-school-hours care – are the most suitable to meet the demands of families. This may differ from region to region.
5. amending the rebate system to include the use of qualified nannies as an approved type of formal childcare.

Flexibility

That formal childcare and workplaces need to become more flexible to support parents to balance their work and family commitments by:

1. building more flexibility into childcare provision so that changes on short notice can be accommodated
2. increasing the span of hours in formal childcare settings to make better provision for parents' non-standard hours of work
3. increasing the range of registered and approved services to include in-home care by qualified nannies, thereby giving more flexibility to women to take on senior leadership roles
4. ensuring that flexible working arrangements for both parents are the 'norm' rather than the exception in Australian workplaces. Combined with increased flexibility of childcare provision, this will greatly improve parents' capacities to manage their paid work and family commitments more effectively.

Affordability

That childcare should be made more affordable by amending the current rebate and taxation system so that secondary earners are not penalised for working more hours and to ensure that parents at all levels of the income distribution receive equitable benefits. This may involve a number of changes to the existing system, including:

1. raising the income threshold at which family payments cease
2. changing the means testing of the Child Care Benefit (CCB) to take into account the number of dependent children, the number of children in childcare, and the hours of paid work undertaken by the secondary earner. This should result in a scale whereby the income threshold increases incrementally in response to these other factors.
3. amending tax calculations so that secondary earners do not become penalised at different points of the income distribution. For a more detailed explanation, see [1]
4. indexing the Child Care Rebate (CCR) threshold to inflation so that families are better able to keep pace with the cost of living.

Quality

Although the specifics of providing high quality childcare are outside the remit of the Agency, workforce participation of parents is directly affected by the quality of care available to them. Quality of care encompasses the quality of the staff providing childcare services and the benefit gained by a family from using a childcare service. The Agency therefore recommends that the quality of childcare should be considered in light of the capacity of the industry to attract and retain qualified staff capable of providing high quality childcare. As a female-dominated industry, the historic undervaluing of childcare workers' wages is of prime importance here and needs to be addressed.

The other aspect of quality of childcare – that is, the benefit gained by families who use childcare services in terms of effectively balancing work and family commitments and reducing stress and other negative effects of role strain – is directly related to:

1. the quality of childcare provision
2. the capacity of available childcare to alleviate tension between work and family roles through being accessible, flexible and affordable

3. ensuring that nannies who are registered providers are suitably qualified.

This submission

In this submission, we address key questions posed by the Productivity Commission [2] which have direct relevance to the workforce participation of parents. Australia's current total workforce comprises 46% women and 54% men [3]. In relation to the Agency's work, 'workforce participation' comprises not only a person's engagement in paid employment, but the proportion of time they can devote to paid employment and the level at which they are able to engage.

Just under one quarter of the female workforce is employed part-time (21%) compared to less than 10% of the male workforce, suggesting that many women face constraints in the amount of time they can give to paid employment. Women hold only 17.3% of board roles in the top 200 organisations listed on the Australian Securities Exchange [4] and only 3.5% of CEO roles [5]. This indicates that women are also restricted in the levels at which they can participate in the workforce. Given that more women than men now complete tertiary education in Australia, it is surprising and concerning that women make up so few of the country's senior business leaders.

While affordable and accessible childcare is a critical driver of workforce participation, there are other levers that can impact women's abilities to enter paid work and move up the leadership ladder. The provision of adequate and appropriate paid parental leave is one of these key levers. Research also suggests a range of structural and cultural barriers exist in the workplace that limit women's abilities to stay in paid employment and progress at the same rate as men. These include limitations in workplace flexibility, the persistent gender pay gap (currently 17.5% nationally), cultural norms that prescribe 'suitable' occupations for women and men, and constraints on the support available for pregnant women and new parents.

The Agency is focused on helping employers build the organisational capability required to remove these barriers and maximise the full potential of their female and male employees. Specifically, the Agency conducts in-depth research, develops tools and resources, and conducts public awareness and culture changing campaigns aimed at improving female workforce participation.

In addition to this influencing and education agenda, from 2014 all non-public sector employers with 100 or more employees will report to the Agency on output measures described as 'Gender Equality Indicators'. This will generate a world-leading data set on organisational performance in gender equality across Australian workplaces. The data will be analysed and the results fed back to employers to inform their gender equality strategies. The Agency will provide this feedback to employers in the form of customised benchmark reports on their performance against gender equality indicators. These benchmark reports will be powerful business intelligence tools, enabling employers to compare their gender equality performance with that of their peers, identify areas for improvement and track the effectiveness of gender equality strategies over time.

The data will be unique; no similar benchmarking data is currently available to employers in Australia. Underpinning the effectiveness of the new system is the standardised nature of the data. Standardised gender equality metrics will give external stakeholders such as employees and investors the opportunity to assess an organisation's gender equality maturity. Organisations will also be able to assess the performance of their suppliers. Creating these market dynamics helps a business case to evolve that will encourage employers to invest in workplaces where women and men are equally able to participate.

The primary question that this submission seeks to address is: "What is the relative importance of the accessibility, flexibility, affordability and quality of early childhood education and care (ECEC), relative to other key factors, in influencing decisions of parents as to whether they work or remain at home to care for children?"

To address this question, we consider the current system of childcare provision in Australia and the constraints that parents face when attempting to balance their work and family responsibilities. We then present research pertaining to the four core elements in this question – accessibility, flexibility, affordability and quality of ECEC. After discussing the current levels of government support available to parents, we outline reforms that have been suggested for the existing system and provide a case

study the Agency conducted with a leading resources company in relation to employer-provided childcare.

How is childcare currently provided?

The provision of childcare is divided into two broad categories: 'formal' and 'informal'. Formal childcare services refer to those available through approved providers external to the family for which users pay. Informal childcare is usually provided by relatives and friends. Enabling mothers to maximise their workforce participation has historically been the motivation behind government-subsidised formal childcare services [6, 7]. However, formal childcare has limitations, primarily lack of flexibility and cost [6].

Formal childcare may be available for long hours during the working week, but it is rarely available outside standard working hours (e.g. for shift workers) and is usually not flexible to change schedules at short notice [6]. As a result, many Australian families use a mix of formal and informal childcare to help balance their family caregiving and paid work responsibilities [6]. This also has its drawbacks, particularly in a society where it is common for young adults to live away from their extended families.

The close proximity of mothers or mothers-in-law has been linked with women's increased labour force participation [8], but living away from the extended family makes accessing sources of informal childcare difficult for a lot of parents. In Australia's large metropolitan centres, even moving to the other side of the city can make using grandparents or other relatives for informal childcare problematic.

Brady and Perales suggest that enabling mothers to increase their workforce participation requires greater flexibility in the provision of formal childcare. Of particular importance would be increasing the span of available hours, providing care on weekends, and making allowances for changes to schedules or bookings on short notice [6].

Who uses formal childcare?

In 2011, 55% of all children attended childcare. Of these, 44% were in formal care only, 33% were in informal care only and 22% were in both formal and informal care. Of those in formal care, 84% were in long day care, 11% were in family day care, and 5% were in occasional care [9].

Analyses by the former Department of Education, Employment and Workplace Relations (DEEWR) showed that between 2004 and 2012, the numbers of children in approved (formal) childcare increased by 33%, and the numbers of families using approved childcare increased by 32%. The greatest growth was in the use of long day care services, followed by outside-school-hours care [10].

While the numbers of children and numbers of families using childcare services increased over this time period, the number of hours that children spent in childcare did not change to any great degree [10]. From these figures, it is clear that formal childcare is an integral part of Australia's work and family landscape. To maximise the workforce participation of parents, it is necessary to ensure that the childcare system works effectively for families in a variety of circumstances.

It is reasonable to expect that parents on higher incomes would use formal childcare services the most, but ABS data from 2011 show that the income band that used the highest amount of childcare was the second lowest (\$1000-\$1199 per week: 17 hours of childcare per week on average). The highest income bracket (\$2000+ per week) used 14.7 hours on average per week, which is not substantially more than the lowest income bracket (less than \$1000 per week), which used 13 hours on average per week [11]. This may be related to the income thresholds that are applied to the Child Care Benefit and other family payments.

How can childcare affect workforce participation?

Ensuring that parents can obtain accessible, flexible, affordable and high-quality childcare will have positive effects in three main areas of constraint on workforce participation:

Constraint 1: The need for substantial time to be expended in looking after children - time which has traditionally been donated by mothers.

If a childcare system can ensure that children are well cared-for while parents are at work, the need for one parent to stay at home to provide childcare is reduced or eliminated.

Constraint 2: The need to maximise household income while minimising household expenses.

A childcare system that supports both parents to be in paid employment while keeping the cost of childcare down will increase opportunities for workforce participation for both parents. This maximises household income, while household expenses – at least in the cost of childcare – are kept to a minimum.

Constraint 3: The need to meet employers' expectations of availability at required times, flexibility to meet peak work demands, presence in the office and minimal interference of family caring responsibilities with paid work.

A childcare system that enables parents to meet their employers' expectations will lead to increased workforce participation, improved human capital growth for both women and men and reduced long-term disadvantage in employment and income for the parent who would otherwise stay at home to care for children.

When an available childcare system does not effectively address these constraints on parents' workforce participation, conflict between paid work and unpaid family caring work is the usual outcome. The most common solution to this conflict is that one parent – typically the mother - gives up or reduces the amount of time they spend in paid employment [12, 13]. Recent statistics show that 20% of people aged 18 years and over who wanted and were available to start a job or to work more hours said that they were not looking for work or more hours because they were caring for children [14]. A further 20% cited childcare-related issues (cost and availability of formal childcare, age of children, personal preference) as their primary reason for not looking for work/more hours [14].

Childcare assistance is considered by the World Economic Forum to be a key factor in facilitating women's workforce participation [13]. Globally, Australia is given a relatively low ranking on gender equality indicators (an overall score of 24) given that it is one of the economies ranked as 'high income'.^{*} In the World Economic Forum 2013 Gender Gap Report, Australia was ranked 52nd out of 136 countries on gender equality in workforce participation; 55th out of 130 on pay equity; 39th out of 131 on enrolments in tertiary education; 24th out of 114 on women in leadership and legislative roles; and 47th out of 125 on women in ministerial positions (data gathered prior to the 2013 federal election) [13]. In some of these rankings, Australia lags behind a number of substantially less wealthy nations, but also behind other wealthy economies such as Denmark and Canada [13].

Central to the Agency's activity is working with organisations to understand and mitigate the long-term consequences for a parent who reduces their commitment to paid employment to care for children. The prime child-rearing years coincide with what is known as the "Golden Decade" for career development, from age 30 to 40, and being out of the workforce during these years - or working in jobs that may be career-limiting rather than career-enhancing - makes it highly unlikely that this parent will be able to reinvigorate their career later in life [15]. The length of parental leave taken also impacts on employees' abilities to re-enter the workforce and maintain their career momentum. This combination of factors has flow-on effects in terms of less accrued human capital, substantially reduced superannuation savings and lower lifetime earnings, all of which impact on financial security after exiting from paid employment.

The Agency takes the view that these negative impacts can be largely removed if organisational and government policies proactively support both parents to balance paid work and family care work effectively. Childcare that is accessible, flexible, affordable and of high quality is a key factor in helping parents achieve this goal.

Accessibility

The accessibility of formal childcare services – in terms of geographical location – is of concern to all users, but is particularly important to workers in regional and remote Australia, where any services offered are likely to be widely spread across large regions. As the Australian Women's Chamber of

^{*} Using the World Bank classification of economies using four income categories derived from 2011 GNI per capita (current US\$)

Commerce and Industry (AWCCI) noted, this difficulty is apparent in the loss of women from the mining workforce when they become mothers due to the lack of accessible childcare facilities in regions that are heavily reliant on the mining industry for employment [12].

Accessibility also incorporates the types of care that are available to parents. Women's increasing workforce participation in recent years is reflected in increases in the numbers of families and children using long day care services in Australia. From 2004 to 2012, there was an increase of 39.5% in the numbers of children in long day care, and an increase of 41.3% in the numbers of families using long day care [10]. The bulk of these increases occurred during the three years from 2008 to 2011. In the preceding three years (2004 to 2007), the rates of increase were only 6.7% and 7.3% respectively [10]. This indicates that increasing numbers of families are looking to use long day care, and this upward trend should be expected to continue. Over the same period of time, there has been a corresponding increase of 35.9% in the number of long day care services [10].

Conversely, over the same period (2004 to 2012), there were only minimal increases in the numbers of children in approved family day care and in-home care[†], and virtually no change in the numbers of families using these services. The use of occasional care services declined substantially (38.2%) from 2004 to 2012, although a reallocation of places in late 2012 suggests that use of occasional care will increase again [10]. The numbers of children and families using outside school hours care increased slightly from 2004 to 2007, but then showed much greater increases of 13% (numbers of children) and 14% (numbers of families) from 2008 to 2012 [10].

Accessibility also refers to how well the available childcare services meet the needs of each family. For example, professional women and those who work in senior leadership roles will find conventional childcare services are insufficient, even with extended hours of care. For many, in-home care using qualified nannies is one of the few viable options open to them. This type of care affords them greater flexibility to fit with long work hours, working away from home, schedule changes, and dealing with daily childcare-related tasks such as transporting children to and from childcare centres, school, sports, medical appointments and extra-curricular activities, organising meals, and sorting out clothes. Without this level of support in caring for their children, many women are unable to pursue senior leadership roles. However, the current subsidy system does not make provision for the use of nannies.

Thus, the interaction between the accessibility of childcare and workforce participation is related to a) location, b) type of care that can be accessed, and c) the spread of services available.

Flexibility

Many of the difficulties encountered by parents who want to provide appropriate care for their children while engaging as fully as possible in paid employment are related to the lack of flexibility in paid employment, which is compounded by the limits to flexibility in formal childcare. Most childcare centres operate between 7 am and 6.30 pm, and very few offer variable hours as a matter of course [10, 16]. The majority (98.2%) offer care services five days a week. Childcare outside the normal span of hours is offered by about 35% of providers of long day care, outside-school-hours care, occasional care, and vacation care [10]. In-home care is the service that is the most likely to offer variable hours of operation on different days of the week (24%) as well as weekend care (53.1%) [10].

In today's globalised workplaces, it is often not reasonable to expect that parents in the workforce can operate to a schedule wherein the earliest they can drop their child at a childcare centre is 7 am, and the latest they can collect their child is 6.30 pm every day. However, it is also often not reasonable to expect that childcare workers will be available to provide ad hoc extended care without sufficient notice. This highlights the need for extended hours of care to be a standard part of childcare provision.

Many workers (e.g. shift workers and people in the medical professions) have need of childcare services that operate well outside the span of hours in a normal working day. As noted above, parents who work in senior management roles are also unlikely to find the standard spread of extended

[†] 'In-home care' refers to professional childcare services provided in the child's own home (see <http://www.mychild.gov.au/pages/ccoptions.aspx>)

childcare hours will be sufficiently flexible to meet their needs. It is therefore important that an effective system of formal childcare includes qualified nannies as a form of approved care.

Workplaces that offer flexible work arrangements to all employees also help parents to effectively manage their paid work and family care commitments. Flexible work arrangements give employees more control over the way that they spread their working hours over the week, and this can alleviate problems with inflexibility in childcare hours. Flexible working arrangements that are accessible by senior managers also help to retain women in leadership roles after they have children.

ABS data show that in families with a male parent employed, 41% of fathers used some form of flexible work arrangement to help them manage their childcare commitments, compared to 75% of mothers in families with a female parent employed. For mothers, the predominant arrangement was part-time work (43%), while flexible working hours were the most commonly used form for fathers (30%) [17].

Research from the Diversity Council Australia has shown that organisations that provide flexible working arrangements benefit from access to a broader talent pool of both women and men. Flexible work was found to be the third most highly valued job characteristic among young fathers and men under 35, and leads to increased employee engagement and discretionary effort [18]. Direct links have also been identified between the use of flexible work arrangements and increased performance and productivity [19].

The Agency's position is that both childcare providers and workplaces need to become highly flexible in order to accommodate the needs of modern families. Parents in the workforce need workplace flexibility to ensure that their families are well-cared-for, and childcare flexibility to ensure they can meet the expectations of their employers. Flexibility in childcare includes the types of care that are approved and therefore eligible for government rebates, the spread of hours in which formal childcare services can be accessed, and the spread of services that are available to meet the needs of parents engaged in today's workplaces.

Affordability

The link between affordability and workforce participation

The direct link between the cost of childcare and workforce participation for women was highlighted by Gong and Breunig [20] who found that when there is a 1% increase in the net cost of childcare, there is a corresponding decrease of 0.10% in the working hours of partnered women, accompanied by a 0.6% decrease in employment rates. These outcomes are magnified for women who are on lower incomes and have less education. The negative relationship between childcare pricing and workforce participation is strongest for mothers of pre-school children [20]. Gong and Breunig [20] also note that in over 30% of households that use childcare, the number of hours worked by the mothers exceeds the number of hours of formal childcare used, indicating that a proportion of childcare is undertaken through informal care options.

In the current two-fold Australian rebate system of a CCB twinned with a CCR, both subsidies have been shown to significantly increase mothers' workforce participation, as well as increasing the demand for formal childcare services and increasing household disposable income [7]. For every dollar of the CCB, mothers' hours of paid work increased by 0.02, formal childcare hours increased by 0.04 and household disposable income increased by \$0.96, while childcare net costs reduced by \$0.76. The CCR, however, had a 50% greater effect on mothers' paid work hours than the CCB, and household income increased by an extra 11 cents compared to CCB, while informal care hours did not change. The cost to taxpayers per subsidy dollar was 13 cents less under the CCR than the CCB [7]. Overall, this suggests that tax rebates may be more beneficial than price subsidies in childcare provision, and that the tax rebate has a larger positive effect on mothers' labour supply than the CCB [7].

The cost of childcare

The cost of childcare in Australia is difficult to quantify because the government does not regulate the prices that childcare operators can set, and the costs can vary considerably from state to state and region to region. However, a recent report from DEEWR showed that parents' out-of-pocket costs for

one child in long day care for 50 hours a week have stabilised and declined in recent years. Across all income bands, out-of-pocket costs – expressed as a proportion of total income - for long day care averaged between 8.5% and 9.5% in the March quarter of 2012 [10]. Prior to this, the proportion was around 12% for most income bands [10].

Australian Bureau of Statistics' (ABS) data from 2011 shows that the average weekly cost for children aged 4-5 who usually attended preschool was highest in NSW (Mean: \$98; Median: \$80), which was more than 30% more expensive than the next most expensive state, Queensland (Mean: \$63; Median: \$56) [11]. The lowest average weekly cost was the Northern Territory (Mean: \$10; Median: \$4) and Tasmania was only slightly more expensive (Mean: \$10; Median: \$0). Victoria was comparatively inexpensive (Mean: \$34; Median: \$19), and both South Australia (Mean: \$23; Median: \$7) and Western Australia (Mean: \$21; Median: \$1) were low [11].[‡]

The cost of preschool also varied between metropolitan and regional areas of Australia, and between government and private providers [11]. Major cities returned the highest average cost of \$59 (median: \$24) per week, with inner regional areas having the next highest average cost of \$28 (median: \$14) and outer regional areas being the least expensive at \$21 (median: \$6). Remote and very remote Australia was very inexpensive at an average of \$7 per week. Government or state-run preschools were substantially less expensive (Mean: \$18; Median: \$8) than non-government preschools (Mean: \$96; Median: \$65).

Although the average costs varied so widely between states, the average weekly hours in preschool were remarkably similar, spanning from a low 12.6 hours in South Australia to a high of 17.4 hours in Queensland. It is also interesting to note that the average weekly hours of preschool varied little based on the labour force status of the parents: 11.7 hours if neither parent was employed; 14.1 hours if one parent was employed and 14.2 hours if both parents were employed [11].

In terms of formal care other than preschool, the ABS provides data for families with children aged 0 to 12 years who usually attended care [11].[§] Of these, 13% usually attended for 30 or more hours per week, and the average weekly cost for this attendance was \$152 [11]. The largest proportion (32%) attended formal care for between 10 and 19 hours a week at an average weekly cost of \$66. The larger proportion of families paying \$80 or more a week had children in long day care (34%), while the larger proportion of families paying \$20 - \$39 a week and \$1 - \$19 a week had children in family day care (26% and 23% respectively). Higher costs (over \$80 a week) were also associated with families whose children attended formal care only (23%) or a mix of formal and informal care (26%).

The cost of childcare is not limited to the direct out-of-pocket expenses incurred by parents. Those expenses are affected by the number of children in childcare and the type of service required. Parents' abilities to pay childcare fees are also impacted by the secondary income-earner's net income. This, in turn, is largely determined by the taxation system in which the parents operate, compounded by income thresholds at which various government payments cease. Each additional child – particularly the third – further reduces a mother's income and women with three or more children are the least likely to participate in the labour market [21, 22]. In this way, larger family size has a lasting negative impact on women's workforce participation and lifetime earnings [23].

The result is that for secondary earners, any increase in earnings from paid employment may be outpaced by the cost of childcare plus the loss of other government payments plus increased taxes for higher income. In this circumstance, investing more time in paid work may ultimately be unproductive, particularly if staying home to provide childcare also equates to substantially reduced childcare expenditure, increased government payments and a reduced household tax burden [24]. Daley [25] suggests that addressing these issues and increasing the take-home income of the secondary income earner in a family – most often a mother – is the most important policy change that will drive increases in women's workforce participation.

[‡] These figures are only for preschool attendance, and the median costs are substantially lower than the mean costs. This indicates that there is wide variance in the data, especially in the upper half of the distribution. Sample sizes are also relatively small in some states and territories.

[§] Anecdotal evidence suggests that the average costs for formal care cited here are well below the costs that many families incur. This is likely due to the wide variance in the distribution of the data and the lack of separation between metropolitan, regional and rural/remote areas, as well as differing sample sizes between these areas.

Successive governments have increased benefits to families to help with childcare costs. However, increases in benefits are usually taken up in increased childcare fees, leaving families no better off, and inevitably shrinking the value of assistance payments [26]. Baker [26] suggests that making childcare affordable requires more than just increasing benefit payments because the issues that underpin affordability are varied and complex.

How affordable is it?

The numbers of Australian households reporting difficulty with meeting the cost of childcare has increased substantially since 2001, to around 30% [26]. In terms of cost : income ratios, households reporting difficulties in meeting childcare costs in 2010 were spending, on average, 9.6% of disposable household income on childcare [26]. The highest level of difficulty was reported by households in which one parent worked full-time and the other worked part-time: of these, 53% reported difficulty meeting childcare costs [26].

The policies and procedures around family payments, including those for childcare, have a direct impact on the choices that families make to do with paid work and family care work [27]. When deciding whether to undertake paid work, mothers are strongly influenced by the impact of taxes and other family-related financial benefits [27]. In the present circumstances, childcare is too expensive for many parents, and the cost burden increases with each additional child. This is impacted to a large extent by existing income tax penalties for the second income earner in a household, which serve as a disincentive for that parent to work. Thus, the affordability of childcare has a direct impact on the workforce participation of both parents.

The subsidy system

As noted above, Australia operates a two-fold subsidy system, comprising the CCB and the CCR. Families must claim the CCB before they can be eligible for the CCR, but do not have to be eligible for the CCB in order to claim the CCR. The CCB pays a set rate (\$3.99 per hour at the time of writing) for each non-school-aged child in approved care [28]. For non-school-aged children in registered care, the rate drops to \$0.666 per hour for up to 50 hours of care per week. For school-aged children, the benefit is reduced to 85% of the non-school-aged rate [28].

A 'Work, Training, Study test' is used to determine whether families can claim up to 24 hours a week per child, or up to 50 hours a week per child [28]. An income test is also applied to the CCB and only families earning less than \$41,902 per annum, or those on income support, can receive the maximum benefit. The benefit then reduces incrementally up to specified income limits at which the benefit becomes \$0 for 1, 2 or 3+ children in care [28]. The CCB can be paid as a fee reduction direct to the service provider or as a lump sum to the claimant [28].

The CCR is intended to cover 50% of the out-of-pocket expenses of having a child in childcare, with a maximum amount of \$7,500 per year per child [29]. Total out-of-pocket expenses are calculated after any CCB or JET (Jobs, Education and Training) childcare assistance has been deducted. The CCR is subject to the Work, Training or Study test, but is not subject to an income test [29]. The CCR can be paid direct to the service provider, or by fortnightly, quarterly or annual payments to the claimant's bank account [29].

The CCB price subsidy benefits lower income households more than higher income households, while the CCR tax credit has the reverse effect [7]. Despite this, the more positive relationships between the CCR, workforce participation and household disposable income persist across all income levels [7]. On balance, the tax rebate was found to be more effective at increasing mothers' workforce participation than the subsidy and was cheaper for tax-payers to fund [7].

The two main barriers that appear to exist in the current CCB/CCR system are that the out-of-pocket costs can be substantial for parents, particularly those using long day care (which, as noted above, is essential to manage employer expectations around employee availability and flexibility). The second main barrier is that the system is complex and lacks transparency, making it difficult for people to navigate the application process and increasing the administrative burden.

Quality of care

Although the specifics of providing high quality childcare are outside the remit of the Agency, the quality of childcare available has a direct impact on the workforce participation of parents. Where high quality care is not available, parents may decide that one of them must stay at home to provide an acceptable level of care for their child/ren. Australian research found that parents who had high aspirations for the level of care they provided for their children were reluctant to use childcare services [30]. The result was that mothers often worked part-time around their children's school hours [30]. Thus, the quality of care that providers are able to offer is an important influence on parents' workforce participation.

The quality of childcare is assured through the quality of providers' staff. As part of the health care and social assistance industry (80% female) [3], the childcare workforce is female-dominated and as such has historically been under-remunerated. This has led to declines in the quality of staff able to be employed in the industry, leading to an inevitable decline in the quality of care provided. Parents need to feel confident that their children will receive quality care from qualified individuals, so the remuneration of childcare workers is a critical component to be considered as part of this review.

The quality of care can also encompass the benefit that formal childcare can provide in terms of alleviating parental stress. While standard, centre-based types of formal childcare can help to reduce the stress of parents trying to balance their paid work and family commitments, the availability of high quality in-home care could be even more beneficial, particularly for parents in senior leadership roles.

Reforms suggested by others

Tax deductions

Tax deductions for childcare expenses could replace the existing CCB/CCR system. This would streamline the system and remove much of the complexity of the current payment structure. Tax deduction approaches to childcare subsidies also often make allowance for the cost of nannies, which addresses issues of inflexibility in the available hours of formal childcare outside the home. This approach would also reduce administrative cost and effort, and a tax deduction should have a direct and positive influence on the numbers of women in senior leadership roles because it ultimately favours higher income earners. This is perhaps the greatest drawback in the tax deduction approach, because lower paid shift workers face equally challenging circumstances but a tax deduction system would be less beneficial to them. In addition, a tax deduction can only be made once a year and many families would need to have subsidies paid in smaller increments (e.g. fortnightly or monthly). It is unlikely that a tax deduction approach would be able to meet this need.

Combined CCB/CCR

The Henry Tax Review (2009) recommended changes that are not radically different from the existing system. In particular, the review recommended that the CCB/CCR payments should be combined into a single means-tested payment based on percentage of out-of-pocket costs. In this proposal, families on low incomes would receive higher rates than those on higher incomes, and the base rate would be linked to the marginal rate of tax paid by the majority of taxpayers.

Repackaging the CCB/CCR

Baker [26] suggested that means testing of the CCR should be extended, or that the CCR and CCB should be combined, and proposed two other policy reforms. In the first, the current funding for the CCR would be repackaged so that it would be used to directly manage funding of childcare places and centres in areas of highest need. This option is intended to maximise service affordability, however extended means testing would increase administrative complexity and may increase the cost of the scheme while discouraging eligible families from applying [26]. The third option proposed by Baker is that means testing should be adjusted to "...achieve a progressive scale of the proportion of household disposable income spent on childcare costs." (p. 19). This proposal is intended to help target government assistance more effectively using a progressive scale of cost : income ratios [26].

Universal payment system

Another proposed funding model is the ‘universal payment system’. In this approach, all families would receive a payment, regardless of their income or childcare arrangements. This payment represents a simple and cost-effective alternative to the Family Tax Benefit. To balance out the benefit to families on high and low incomes, without introducing a means test, a universal payment could be taxable at the marginal rate of the highest earner in a couple. A universal payment provides recognition of the value to society of raising children, and its universal nature could help reduce the numbers of children living in poverty [1]. Families in the middle to upper-middle of the income distribution would benefit most from a universal payment system, while single people and couples without dependent children would be most likely to pay increased taxes without receiving any benefit from this reform [1].

The role and potential for employer supported childcare

In any reform of Australia’s childcare system, the role of employer-supported childcare must be taken into account. However, the provision of childcare – whether indirectly through preferential referrals or directly through employer-managed childcare centres – should be only one part of a suite of methods that employers use to assist parents to maintain their paid employment.

Case study

The Agency has conducted a brief case study with a leading resources company which has a long association with a childcare centre. Through this relationship, the company has enabled its employees to obtain prioritised access to childcare services that are competitively priced and of high quality and which are close to the company’s head office. In addition, the centre offers maximum flexibility to the company’s employees, so that childcare days can be changed if work days change.

Combined with this, the company offers flexible work arrangements to the greatest extent possible, as well as return-to-work leave for parents transitioning from parental leave back into paid work. Return-to-work leave allows parents to take an extra one week’s leave in the first year after returning to work so that they can spend extra time with their children. Parents do not need a particular reason – such as a sick child – in order to take this leave; it is intended to help their transition back to work.

The company has a 96% return-to-work rate for new mothers following maternity leave, which it attributes to the accessibility of childcare, flexibility in both childcare arrangements and work, and the provision of return-to-work leave. Other benefits that the company has noted that are believed to be related to this support include lower rates of absenteeism among parents and an ‘alumni’ of parents on staff whose children have been through the childcare centre over many years. These factors help to maintain stable return-to-work rates and longer-term retention of parents.

The company believes that other organisations who are looking to strengthen their workplace flexibility programs can replicate the success it has had by working with a quality provider, establishing long-term, trust-filled relationships and finding a location that works well for the organisation and its employees.

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