



Policy costing

Better pay for early childhood educators	
Party	Australian Labor Party
Summary of proposal: This proposal would provide funding to progressively increase salaries of early childhood educators in the private sector by 20 per cent over eight years from 1 July 2021. Details of which private sector educators would be covered by the proposal would be negotiated with relevant stakeholders. The proposal would be implemented at a maximum cost to the budget of \$537 million over the 2019-20 Budget forward estimates period and \$9,967 million over the period 2019-20 to 2029-30.	

Costing overview

Noting that details of the policy are to be determined following consultation with stakeholders, the Parliamentary Budget Office (PBO) has estimated the financial implications of this proposal on the basis of the assumptions and methodological approaches set out in the *Key assumptions* and *Methodology* sections below.

This proposal would be expected to decrease both the fiscal and underlying cash balances by \$537 million over the 2019-20 Budget forward estimates period. These financial implications reflect the net impact of increases in administered expenses of \$736 million and departmental expenses of \$29 million, partially offset by an increase in taxation revenue of \$228 million. The financial impact includes Commonwealth Government-funded expenses associated with increased wages and associated compulsory superannuation contributions.

The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. The financial implications for the period 2019-20 to 2029-30 are provided at [Attachment A](#).

The financial implications of this proposal are sensitive to changes in wages growth and in the number of early childhood educators. These become more uncertain over the medium term.

This proposal has been completed on a stand-alone basis. However, it is worth noting that this proposal's financial implications may be affected by interactions with two other Australian Labor Party (ALP) early childhood education election commitments (*Labor's plan for cheaper child care* (PER305) and *National Preschool and Kindy Program* (PER307)).

The magnitude of these interactions is difficult to quantify because it is unclear how these three proposals would interact in practice, particularly given the uncertainty regarding which educators would be covered by this proposal. Other factors that would affect potential interactions include differing start dates for the proposals and the extent to which private sector child care centres and preschools based in government schools may seek to draw on the same workforce to meet increased demand. Given these uncertainties, no allowance for interactions has been incorporated.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-	-2	-178	-357	-537
Underlying cash balance	-	-2	-178	-357	-537

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Early childhood educators covered by the proposal would be carers, teachers and managers, defined under the Australian and New Zealand Standard Classification of Occupations, working in private sector child care facilities.
 - Persons working in state and local-government funded child care services and preschools would not be included.
- There would be no material change in the aggregate number of projected early childhood educators in response to this proposal.
- The outcome of negotiations with stakeholders would be constrained by the budget envelope provided by this costing.

Methodology

The funding envelope was calculated by estimating the number of early childhood educators that would be supported by this proposal and multiplying that number by the proposed increase in wages and superannuation.

The number of early childhood educators and baseline wages were informed by Australian Bureau of Statistics (ABS) labour force data on child care centre managers, early childhood teachers, and child carers, grown by population and average weekly earnings projections. Family day care workers and employees of state and local government funded services were not included in these estimates.

The revenue implications were estimated based on the difference between projected tax liabilities (including tax on additional superannuation contributions) under both the current baseline and the proposal.

Departmental expenses include initial implementation costs to establish a system for the Commonwealth Government to pay early childhood educators the amount equivalent to the proposed wage increase. The ongoing departmental impact of the proposal was calculated by estimating the annual cost of administering the wage increase payments per employee under the proposal. The initial and ongoing costs were based on an existing program of similar size and complexity.

All estimates were rounded to the nearest \$1 million.

Data sources

ABS, 2018. *Employee Earnings and Hours, Australia*, ABS Cat. No. 6306.0, May 2018.

ABS, 2019. *Labour force, Australia*, ABS Cat. No. 6291.0.55.003, February 2019.

The Australian Taxation Office provided de-identified tax file data.

The Department of Human Services provided annual unit payment administration costs as at the 2019-20 Budget.

The Treasury provided medium-term population projections and indexation parameters as at the 2019-20 Budget.

Attachment A – Better pay for early childhood educators – financial implications

Table A1: Better pay for early childhood educators – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2019– 20	2020– 21	2021– 22	2022– 23	2023– 24	2024– 25	2025– 26	2026– 27	2027– 28	2028– 29	2029– 30	Total to 2022–23	Total to 2029–30
Revenue													
<i>Personal income tax</i>	-	-	68	149	241	346	462	590	729	878	931	218	4,395
<i>Superannuation contribution tax</i>	-	-	3	7	12	18	25	31	39	46	49	10	230
<i>Superannuation earnings tax</i>	-	-	1	1	2	4	5	7	10	..	31
Total – revenue	-	-	71	156	254	365	489	625	773	931	990	228	4,656
Expenses													
<i>Administered – Funding for salary increases</i>	-	-	-236	-499	-800	-1,145	-1,531	-1,949	-2,401	-2,889	-3,034	-736	-14,486
<i>Departmental – Administering wage increase payments</i>	-	-2	-13	-14	-14	-15	-15	-16	-16	-16	-16	-29	-137
Total – expenses	-	-2	-249	-513	-814	-1,160	-1,546	-1,965	-2,417	-2,905	-3,050	-765	-14,623
Total	-	-2	-178	-357	-560	-795	-1,057	-1,340	-1,644	-1,974	-2,060	-537	-9,967

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.