



Australian Government
Department of Education

Ms Kylie Crane PSM
Deputy Secretary, Early Childhood and Youth

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Dear Ms Abhayaratna

Impact Analysis – Early Childhood Education and Care (ECEC) Worker Retention Payment – Second Pass Final Assessment

I am writing in relation to the attached Impact Analysis (IA) prepared for ECEC Worker Retention Payment (the Payment).

The Payment supports the Government’s ambition to implement universal access to high-quality ECEC, with the Productivity Commission stating that “addressing workforce issues will be fundamental to achieving universal availability” (*A path to universal early childhood education and care, p3*). The core objectives of the Payment are to improve the attraction, retention and sustainability of the ECEC workforce, while also recognising the need to manage fiscal impacts and ensure childcare remains accessible and affordable for Australian families.

The Payment recognises that addressing low wages in the ECEC workforce is critical to achieving the Government’s policy objectives. In its policy development, the Department of Education (the Department) considered three viable policy options, analysing the impacts, costs and benefits, and risks associated with each.

The options are:

- 1) **Option One** - Maintaining the status quo and the Government continuing to fund the ECEC sector through the Child Care Subsidy (CCS), with no additional funding provided to support a wage increase.

The Commonwealth may benefit from potential fiscal savings. However, this is not a cost neutral option as the costs associated with a wage increase would still be partially funded through the CCS. Significant risks to workforce sustainability and universal ECEC are associated with this option. Additionally, it will fail to support critical workplace relations reform.

While there are no direct regulatory costs associated with this option, ECEC providers will continue to incur the administrative costs of inconsistent and disparate wage rates which are mitigated by having an in-force workplace instrument.

- 2) **Option Two** - Government funding a time-limited workforce retention payment to participating CCS approved providers of ECEC services, with no workplace instrument requirement.

Upon consideration, this option presents significant compliance and fraud risks. While ECEC providers would be able to access funding relatively efficiently, no underlying workplace instrument requirement would likely result in administratively burdensome compliance measures for providers, and limited recourse should workers be underpaid. As such, this option will not be brought forward for further ERC consideration.

- 3) **Option Three** - Government funding a time-limited Worker Retention Payment to CCS approved providers of ECEC services to whom a workplace instrument applies (to all relevant employees) that meets certain conditions.

Dependent on the Commonwealth funding commitment and the wage increase amount, the ECEC sector would benefit from increased workforce attraction and retention, and increased accessibility for families. A requirement for workplaces to implement workplace instruments gives workers appropriate recourse mechanisms for underpayments, and assurance to the Commonwealth that funding is being passed on. However, there remains a risk that out-of-pocket expenses for families will increase if there is a disparity between the wage increase and the funding provided. Providers may have higher regulatory costs upfront if they implement enterprise agreements to comply with the workplace instrument requirement. Compliance related requirements for the program would be lower than Option Two.

A fee growth constraint for all providers that applies for the grant will form part of the grant agreement. This will help maintain ECEC affordability for Australian families and limit growth in CCS expenditure, while allowing providers to account for cost increases and remain financially viable.

I am satisfied that the Department has addressed the concerns raised in your letter of 9 April 2024 following your First Pass Final Assessment.

The IA at second pass has been significantly redrafted and expanded, it addressed the three main issues you raised by:

Inclusion of overseas approaches to similar policy challenges, including wage subsidy funding implemented in the United States and Canada and how their relevant program implementation (in their early stages) has seen positive results in retaining ECEC educators and encouraging current ECEC staff to complete their qualification-relevant training.

Outlining key area of policy implementation arrangements and challenges, identifying the timeline for key milestones and deliverables, as well as risks, causes for risks and their consequences and relative treatments.

Providing additional analysis regarding evaluation with short- and long-term success indicators of policy reforms relating to staff attraction and retention, increased student pipeline, ECEC educators feeling valued, and services remaining affordable.

A comprehensive analysis was conducted to assess the costs and benefits of the recommended policy option, noting all values are calculated at present values (in 2024 dollars). The total cost is estimated at \$3.85 billion over two years (across three financial years).

Other matters listed in the attachment to your first pass response letter of 9 April 2024 have been systematically and fully addressed. The Department worked in a close and iterative process with OIA to bring this IA to second pass stage.

Accordingly, I am satisfied that the IA is now consistent with the six principles for Australian Government policy makers as specified in the *Australian Government Guide to Policy Impact Analysis*.

I submit the IA to the Office of Impact Analysis for formal final assessment.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K. Crane', written in a cursive style.

Kylie Crane

18 June 2024