



Parliament of Australia
Parliamentary Budget Office

Phil Bowen PSM FCPA
Parliamentary Budget Officer

Senator Christine Milne
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Milne

Please find attached a response to your costing request, *Childcare* (letter of 4 September 2013).

The response to this request will be released on the PBO website (<http://aph.gov.au/pbo>).

If you have any queries about this costing, please do not hesitate to contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

5 September 2013



COSTING – ELECTION CARETAKER PERIOD

| Name of proposal to be costed: | Childcare |
|-----------------------------------|---|
| Summary of proposal: | <p>The proposal has three parts:</p> <p><u>Part 1</u> would introduce a \$200 million capital grants fund over four years from 1 July 2014. The fund would assist with the establishment of new childcare centres and the expansion of existing centres.</p> <p><u>Part 2</u> would combine the Child Care Benefit (CCB) and Child Care Rebate (CCR) into a single payment, and boost the base hourly benefit to \$6.10 per hour from 1 July 2015. The payment would continue to cover 50 per cent of the remaining expenses after subtracting any income tested hourly subsidy, up to a maximum of \$7,500 per annum, as is currently the case with CCR. The new payment would also introduce an additional 10 per cent loading to the base hourly benefit for children aged 0 to 2 (inclusive) and a further 10 per cent for children in rural and regional areas. The new payment would be made directly to child care centres and passed on to families via fee reduction, removing the option for parents to have payments made directly to their bank accounts.</p> <p><u>Part 3</u> would introduce a Higher Education Loan Program (HELP) waiver scheme to encourage qualified educators to join and stay in the early childhood workforce. Under the program, no HELP repayments would be required by early childhood education teachers, and the Government would write-down HELP debt equivalent to the payment that would usually be required for the financial year. Teachers working in areas specified as high need would have the amount of debt written down doubled. This would replace the existing HECS-HELP Benefit for early childhood education teachers from 1 July 2014.</p> |
| Person/party requesting costing: | Senator Christine Milne, Australian Greens |
| Date costing request received: | 4 September 2013 |
| Date costing completed: | 5 September 2013 |
| Date of public release of policy: | 14 August 2013 (Part 1) and 27 August 2013 (Part 2 and 3) |

COSTING – ELECTION CARETAKER PERIOD

| | |
|---|--|
| Agencies from which information was obtained: | <ul style="list-style-type: none">• Department of Education, Employment and Workplace Relations (DEEWR)• Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE) |
|---|--|

Costing overview

The proposal is expected to decrease the underlying cash balance by around \$2.44 billion and both the headline cash and fiscal balances by around \$2.46 billion over the 2013-14 Budget forward estimates period. These impacts are entirely due to an increase in expenses.

Part 1 of the proposal would decrease both the underlying cash and fiscal balances by \$150 million over the 2013-14 Budget forward estimates period. The proposal would also decrease both the underlying cash and fiscal balances by an additional \$50 million in 2017-18.

Part 2 of the proposal would decrease both the underlying cash and fiscal balances by \$2.29 billion over the 2013-14 Budget forward estimates period. This estimate includes departmental expenses of \$5 million in each of 2014-15 and 2015-16 to cover Information Technology changes and funding for an information campaign for both child care centres and families using care. This new benefit would have an ongoing impact beyond the 2013-14 Budget forward estimates period.

Part 3 of the proposal would decrease the headline cash and fiscal balances by \$24.8 million and the underlying cash balance by \$4.5 million over the 2013-14 Budget forward estimates period. This impact would be ongoing beyond the 2013-14 Budget forward estimates period.

A disaggregation of the individual parts of the costing can be found in [Attachment A](#).

[Attachment B](#) contains additional detail on the policy parameters for the new child care payment, and how they differ from those that would apply for CCB and CCR under the current system.

The differences between the headline cash, underlying cash and fiscal balances in Part 3 are due to the accounting treatment of the income contingent loans made through HELP. The estimates in this costing differ slightly from those in the applicant's costing request as the applicant included headline cash balance impacts in the underlying cash balance figures.

This costing of Part 1 is considered to be of high reliability as it is based on a capped funding amount specified in the costing request. The costing of Parts 2 and 3 are considered to be of low-medium reliability. The estimates of these two parts will be sensitive to population growth, child care prices, demand for child care, incomes growth and the levels of HELP debts and the take-up of the waiver scheme for teachers working in the early childhood education and care sector.

COSTING – ELECTION CARETAKER PERIOD

Table 1: Financial implications – all options (outturn prices)^(a)

| Impact on | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|-------------------------------|---------|---------|----------|----------|
| Headline cash balance (\$m) | - | -62.1 | -1,173.3 | -1,229.4 |
| Underlying cash balance (\$m) | - | -56.3 | -1,166.5 | -1,221.7 |
| Fiscal balance (\$m) | - | -62.1 | -1,173.3 | -1,229.4 |

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash or headline cash balances indicates an increase in expenses in cash terms.

Key assumptions

Part 1: Capital Grants Fund

Consistent with the costing request:

- Expenditure is assumed to be evenly spread over the four year life of the fund, and
- Departmental expenses are assumed to be covered by the \$200 million allocated to the fund.

Part 2: New Child Care Payment

The PBO has assumed:

- no change in child care use due to the policy change
- that the regional loading would apply for families living in areas classified by the Australian Bureau of Statistics (ABS) as ‘outer regional’ or ‘remote’, and
- that the vast majority of CCR customers currently elect to receive their payment fortnightly, and thus there would be a negligible difference between the costing on underlying cash balance and fiscal balance bases.

Part 3: HELP waiver scheme

The PBO has assumed:

- that 80 per cent of eligible early childhood teachers will take-up the waiver.
 - The current take-up rate for the HECS-HELP Benefit for early childhood education teachers is approximately 30 per cent. The increase in take-up has been assumed as the new program is broader ranging and more generous.
- teachers working in high need areas eligible for additional support are the same group currently eligible for the HECS-HELP Benefit for early childhood education teachers, which is targeted towards teachers working in child care centres in either remote or low socio-economic areas.
- the average annual value of HELP debt that is waived per eligible teacher grows in line with average weekly earnings.
- departmental expenses for the scheme will be covered by those currently allocated to the administration of the HECS-HELP Benefit for early childhood education teachers.

COSTING – ELECTION CARETAKER PERIOD

Methodology

- Estimates have been derived for each of the three parts individually, rounded and then summed to give the total.
 - There are not expected to be any significant interactions between the parts.

Part 2: New Child Care Payment

- The *Legislative Outyears Customisable Model of Child Care* (LOCMoCC) model has been used to estimate the impact of the proposal on families using formal child care.
 - LOCMoCC is based on a confidentialised extraction of administrative data from the child care payments system from a payment week in November 2011.
 - Incomes are inflated for future years using forecasts for the Wage Price Index. Child care prices are inflated based on the DEEWR estimates of child care fee growth.
 - Annual conversion factors are used to transform the results of the simulation from a weekly to an annual basis.
- The base data for LOCMoCC includes the postcode of payment recipients. Correspondences between postcode and areas classified by the ABS as ‘outer regional’ or ‘remote’ have been used to assess entitlement to the remoteness loading.
- A simulation was run to assess entitlement for both the current policy and the proposed policy. The difference between the two outcomes gives the costing.
- The estimate of the departmental expenses has been based on costs of previous changes to the CCMS and the level of funding for advertising recent changes to payments, such as the Clean Energy Future Household Assistance Package and the Schoolkids Bonus.
- Estimates of administered expenses have been rounded to the nearest \$10 million. Departmental expense estimates have been rounded to the nearest \$1 million.

Part 3: HELP waiver scheme

- The costing estimate has been derived by taking the product of an estimated number of teachers likely to claim the waiver, and the average debt waived.
- The number of early childhood education teachers with HELP debts in 2010-11 was taken from the detailed tables from the Australian Taxation Office’s (ATO) 2010-11 Taxation Statistics publication. Estimates of the number of early childhood education graduates from 2010-11 until 2016-17, along with an estimate of the time taken to finalise debt, were used to estimate the stock of teachers with a debt in each year in the 2013-14 Budget forward estimates period. A take-up rate was applied to estimate the number of teachers claiming the debt waiver.
- The number of teachers eligible for the additional support for working in high needs areas has been based on the forward estimates for the HECS-HELP Benefit for early childhood education teachers.

COSTING – ELECTION CARETAKER PERIOD

Data sources

- The LOCMoCC model and forward estimates for CCB and CCR have been provided by DEEWR.
- ABS catalogue number 1270.0.55.006, *Australian Statistical Geography Standard (ASGS): Correspondences, July 2011*.
- ATO, *2010-11 Taxation Statistics*, detailed tables.
- Forward estimates for the HECS-HELP Benefit for early childhood education teachers have been provided by DIICCSRTE.
- 2013 Pre-Election Economic and Fiscal Outlook

COSTING – ELECTION CARETAKER PERIOD

ATTACHMENT A. DISAGGREGATION OF COSTING COMPONENTS

In Parts 1 and 2 of this costing, the underlying and headline cash balance impacts are equivalent.

Table A1: Financial implications – Capital Grants Scheme (outturn prices)^(a)

| Impact on | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|-------------------------------|---------|---------|---------|---------|
| Underlying cash balance (\$m) | - | -50 | -50 | -50 |
| Fiscal balance (\$m) | - | -50 | -50 | -50 |

Table A2: Financial implications – A new child care payment (outturn prices)^(a)

| Impact on | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|-------------------------------|---------|---------|---------|---------|
| Underlying cash balance (\$m) | - | -5 | -1,115 | -1,170 |
| Fiscal balance (\$m) | - | -5 | -1,115 | -1,170 |

Table A3: Financial implications – HELP waiver scheme (outturn prices)^(a)

| Impact on | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|-------------------------------|---------|---------|---------|---------|
| Headline cash balance (\$m) | - | -7.1 | -8.3 | -9.4 |
| Underlying cash balance (\$m) | - | -1.3 | -1.5 | -1.7 |
| Fiscal balance (\$m) | - | -7.1 | -8.3 | -9.4 |

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash or headline cash balances indicates an increase in expenses in cash terms.

COSTING – ELECTION CARETAKER PERIOD

ATTACHMENT B. POLICY SPECIFICATION OF THE NEW BENEFIT

The policy would combine the two major existing child care assistance payments, Child Care Benefit (CCB) and Child Care Rebate (CCR), into a single payment (the “new Benefit”) and provide targeted additional assistance to certain groups of people.

The new Benefit would maintain a similar form of assistance to that currently provided by CCB and CCR, but would be paid directly to care providers through the CCMS and passed on to families through a fee reduction. Families would no longer be able to receive their assistance via payment into their bank accounts.

The new Benefit would maintain an income tested hourly subsidy, as is currently provided by CCB. However, the standard hourly subsidy in 2015-16 would be increased to \$6.10 per hour, from an estimated Consumer Price Index (CPI) indexed value of \$4.15 per hour under current policy.

In addition to the current CCB payment loadings, the new Benefit would provide an additional 10 per cent loading for children under the age of three to reflect the higher costs of care for these children. A further 10 per cent loading would also be available for children in care located outside capital cities and major regional areas.

Under the new Benefit, the standard hourly subsidy would continue to be indexed to the CPI.

The new Benefit would also continue to cover 50 per cent of remaining expenses after subtracting any income tested hourly subsidy, as is currently the case with CCR. The amount of assistance which is available under this component of the new Benefit would be capped at the same level that is currently available under CCR, \$7,500 per annum.

Table B1 provides a brief comparison of the existing and proposed fee assistance schemes.

COSTING – ELECTION CARETAKER PERIOD

Table B1: Comparison of existing and proposed policy settings in 2015-16

| | Current policy | New benefit |
|--|---|--|
| Number of child care assistance payments | Three (CCB, CCR, Jobs, Education and Training Child Care Fee Assistance (JETCCFA)) | Two (new Benefit, JETCCFA) |
| Maximum Hourly Subsidy – income tested | \$4.15 | \$6.10 |
| Income limit to receive maximum subsidy | \$43,654 | \$43,654 |
| Indexation of Standard Hourly Subsidy | CPI | CPI |
| Fees covered in addition to the income tested hourly subsidy | 50 per cent of fees not covered by CCB up to a cap of \$7,500 per annum | 50 per cent of fees not covered by the income tested hourly subsidy up to a cap of \$7,500 per annum |
| Payment method | Paid direct to services providers or paid into families' bank accounts. | Paid direct to service providers. |
| Loadings | <ul style="list-style-type: none"> • Multiple children • Part time • Age based (0-4 years, 5+ years) | <ul style="list-style-type: none"> • Multiple children • Part time • Age based (0-2 years, 3-4 years, 5+ years) • Regional loading |