

Policy costing

Increase in the Assistance for Isolated Children Allowance	
Person/party requesting the costing:	Senator Matthew Canavan
Date costing completed:	16 January 2023
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period
	<input type="checkbox"/> Confidential <input checked="" type="checkbox"/> Not confidential (Public release requested on 16 January 2023)
<p>Summary of proposal:</p> <p>The proposal would increase the Assistance for Isolated Children (AIC) Allowance, with 6 options as described below:</p> <p>Option 1: Increase the annual rate for Distance Education Allowance by \$750 per child</p> <p>Option 2: Increase the annual rate for Basic Boarding Allowance by \$1,000 per child</p> <p>Option 3: Increase the annual rate for Additional Boarding Allowance by \$1,000 per child</p> <p>Option 4: Increase the annual rate for Second Home Allowance by \$2,000 per child</p> <p>Option 5: Extend the annual rate for Distance Education Allowance to children aged between 3 and 4 years old</p> <p>Option 6: Include a Distance Education Teaching Allowance of \$6,000 per family per year to provide financial assistance toward the cost of providing a distance education tutor in the home classroom.</p> <p>For each of the above 6 options, the relevant allowance would be indexed by either:</p> <p>a) the Consumer Price Index (CPI) or</p> <p>b) the CPI Education subgroup Index (CPI Education).</p> <p>The proposal would be ongoing and would have effect from 1 January 2024.</p>	

Costing overview

All options under this proposal would be expected to decrease both the fiscal and underlying cash balances over the 2022-23 Budget forward estimates period (Table 1). These impacts reflect an increase in administered and departmental expenses.

The options in the proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate PDI tables) over the period to 2032-33 is provided at Attachment A, in a separate Excel spreadsheet.

The estimates are sensitive to:

- the estimated number of children who receive Distance Education Allowance, Basic Boarding Allowance, Additional Boarding Allowance, Second Home Allowance over the 2022-23 Budget forward estimates period and over the medium term
- the estimated number of families receiving Distance Education Allowance
- the estimated take-up rate of families with children aged 3 and 4 who would make a claim for the allowance under Options 5a and 5b.

Table 1: Increase in the Assistance for Isolated Children Allowance – Financial implications (\$m)^{(a)(b)}

	2022–23	2023–24	2024–25	2025–26	Total to 2025–26
Option 1a: Increase the annual rate for Distance Education Allowance by \$750 per child, indexed by CPI					
Fiscal balance	-	-4.0	-7.0	-7.3	-18.3
Underlying cash balance	-	-4.0	-7.0	-7.3	-18.3
Option 2a: Increase the annual rate for Basic Boarding Allowance by \$1,000 per child, indexed by CPI					
Fiscal balance	-	-2.5	-4.6	-4.7	-11.8
Underlying cash balance	-	-2.5	-4.6	-4.7	-11.8
Option 3a: Increase the annual rate for Additional Boarding Allowance by \$1,000 per child, indexed by CPI					
Fiscal balance	-	-0.6	-1.1	-1.1	-2.8
Underlying cash balance	-	-0.6	-1.1	-1.1	-2.8
Option 4a: Increase the annual rate for Second Home Allowance by \$2,000 per child, indexed by CPI					
Fiscal balance	-	-0.8	-1.3	-1.4	-3.5
Underlying cash balance	-	-0.8	-1.3	-1.4	-3.5
Option 5a: Extend the annual rate for Distance Education Allowance to children aged between 3 and 4 years old, indexed by CPI					
Fiscal balance	-	-0.9	-1.8	-1.9	-4.7
Underlying cash balance	-	-0.9	-1.8	-1.9	-4.7
Option 6a: Include a Distance Education Teaching Allowance of \$6,000 per family per year, indexed by CPI					
Fiscal balance	-	-20.0	-40.5	-42.2	-102.7
Underlying cash balance	-	-20.0	-40.5	-42.2	-102.7
Option 1b: Increase the annual rate for Distance Education Allowance by \$750 per child, indexed by CPI Education					
Fiscal balance	-	-4.0	-7.2	-8.1	-19.3
Underlying cash balance	-	-4.0	-7.2	-8.1	-19.3
Option 2b: Increase the annual rate for Basic Boarding Allowance by \$1,000 per child, indexed by CPI Education					
Fiscal balance	-	-2.5	-4.7	-5.4	-12.6
Underlying cash balance	-	-2.5	-4.7	-5.4	-12.6
Option 3b: Increase the annual rate for Additional Boarding Allowance by \$1,000 per child, indexed by CPI Education					
Fiscal balance	-	-0.6	-1.1	-1.2	-2.9
Underlying cash balance	-	-0.6	-1.1	-1.2	-2.9
Option 4b: Increase the annual rate for Second Home Allowance by \$2,000 per child, indexed by CPI Education					
Fiscal balance	-	-0.8	-1.4	-1.5	-3.7
Underlying cash balance	-	-0.8	-1.4	-1.5	-3.7
Option 5b: Extend the annual rate for Distance Education Allowance to children aged between 3 and 4 years old, indexed by CPI Education					
Fiscal balance	-	-0.9	-1.9	-2.6	-5.5
Underlying cash balance	-	-0.9	-1.9	-2.6	-5.5
Option 6b: Include a Distance Education Teaching Allowance of \$6,000 per family per year, indexed by CPI Education					
Fiscal balance	-	-20.0	-40.6	-42.8	-103.4
Underlying cash balance	-	-20.0	-40.6	-42.8	-103.4

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

(b) PDI impacts are not included in the totals.

- Indicates nil.

Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

- All allowances would be indexed at the same timeline as current indexation arrangements for the AIC Allowance.
- CPI Education would grow at around 4% per annum from 1 June 2024.

Option 5a and 5b

- The take-up rate of families of children aged 3 and 4 who would make a claim for the Distance Education Allowance would be same as the average rate-up rate of children aged 5 and 6 from 2021 to 2022.

Option 6a and 6b

- The Distance Education Teaching Allowance would be available for all families that are eligible for the Distance Education Allowance.

Methodology

The historical number of children and families claiming the AIC Allowance, to November 2022, were provided by the Department of Social Services.

Administered expenses for all Options (except Options 5a and 5b) were estimated by multiplying the number of eligible children by the specified payment amounts, and then indexed to the specified indexation factor.

Administered expenses for Options 5a and 5b were estimated by multiplying the number of additional eligible school-aged children (aged between 3 and 4 years old) by the assumed take-up rate and the specified payment amounts, and then indexed by specified indexation factor over the forward estimates period and over the medium term.

The impact of a change in the indexation arrangements of the Distance Education Allowance for eligible school aged children aged 5 years old and over was estimated by multiplying the number of eligible school-aged children by the assumed take-up rate and the specified payment amounts, indexed by specified indexation factor over the forward estimates period and over the medium term.

This costing includes an establishment cost in 2023-24 for all Options, based on the number of estimated beneficiaries and estimated annual cost of administering the payments to each new recipient. The ongoing departmental cost for all Options (except Option 5a and 5b) is not expected to be significant, and it is assumed to be met from within existing resources.

The departmental cost for Options 5a and 5b was calculated by multiplying the number of estimated additional beneficiaries by the estimated annual cost of administering the payments to each new recipient.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

¹ https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Data sources

The Department of Social Services provided the number of AIC children applicants, and the number of parent/guardian recipients paid under the different awards, from 2012 to 2022.

Services Australia provided departmental unit costs as at the 2022-23 October Budget.

The Department of the Treasury provided projections of the CPI over the forward estimates period and over the medium term, as at the 2022-23 October Budget

Australian Bureau of Statistics (Reference Period September 2022), *'Table 6. CPI: Group, Sub-group and Expenditure Class Contribution to Change in All Groups Indexes, by Capital City'*, Consumer Price Index, Australia.