



Policy costing

Invest in childcare by abolishing the activity test and raising the income threshold

Party: Australian Greens

Summary of proposal:

This proposal has three components.

- Component 1 has two elements that relate to the National Partnership Agreement on Universal Access to Early Childhood Education which determines Commonwealth and state funding for preschool attendance. The current agreement concludes at the end of the 2020 calendar year.
 - Element 1 would make preschool funding for four-year-old children ongoing and would provide free access for up to 24 hours per child per week across all preschool settings. The current state-to-Commonwealth funding ratio would remain unchanged.
 - Element 2 would provide ongoing preschool funding to allow free access to preschool for three-year-old children for up to 24 hours per child per week across all preschool settings. The current state-to-Commonwealth preschool funding ratio would also apply to three-year-old children.
- Component 2 would expand access to Commonwealth child care funding by removing the child care subsidy activity test entirely and amending the child care subsidy rates as per the table below.

Current annual family income thresholds	Current child care subsidy rate (per cent)	Proposed child care subsidy rate (per cent)*
Up to \$66,958	85	100
\$66,959 to \$171,958	Tapered reduction to 50	100
\$171,959 to \$251,248	50	Stepped reduction from 100 to 50
\$251,249 to \$341,248	Tapered reduction from 50 to 20	Stepped reduction from 50 to 10
\$341,249 to \$351,248	20	
\$351,249 or more	0	0

* Subsidy rates would step down by equal reductions for each \$3,000 increase in family income.

Under the baseline policy setting Commonwealth preschool funding reduces Commonwealth child care funding. Necessary arrangements would be made under this proposal to ensure that child care funding would be calculated net of preschool funding.

- Component 3 would provide \$200 million of grant funding in 2019-20 to reduce waiting lists for community and non-profit (including local government-run) child care centres by increasing the number of spaces they offer. Grants would assist with capital works or increased workforce, depending on the specific needs of individual centres. This funding would be targeted towards high-need areas, where the gap in availability is greatest.

Component 1 of the proposal would have effect from 1 January 2021. Components 2 and 3 would have effect from 1 July 2019.

Costing overview

This proposal would be expected to decrease the fiscal balance by \$20,631 million and the underlying cash balance by \$20,389 million over the 2019-20 Budget forward estimates period. On a fiscal balance basis, the impact reflects an increase in administered expenses of \$20,602 million and a relatively small increase in departmental expenses of \$29 million.

The underlying cash balance impact differs to the fiscal balance impact because of a timing difference between when expenses are recognised and when they are paid. This timing difference is a result of 5 per cent of child care subsidy entitlements in a financial year being withheld and paid in the following year. This withholding amount allows child care subsidy entitlements to be reconciled for any differences in estimated and actual family income for the year.

The proposal would be expected to have financial implications beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications from 2019-20 to 2029-30 is provided at [Attachment A](#).

The financial implications of this proposal are sensitive to several factors. These include:

- assumed increases in preschool and child care enrolment rates over time, which is expected to be driven by the increased child care funding (due to increases in rates and available hours), and by the amount of capital funding being contributed under the proposal
 - The Parliamentary Budget Office (PBO) has not undertaken any analysis to determine whether the additional capital funding or any excess capacity within the existing preschool and child care systems would be sufficient to allow for the additional enrolment rates.
- the estimated cost of providing preschool services to three-year-old children
- uncertainty associated with how the child care and preschool systems would interact under this proposal
 - The estimated savings to the Commonwealth from lower child care funding due to the provision of Commonwealth preschool funding is uncertain because of the uncertainty about baseline interactions between the preschool and child care funding mechanisms.
- responses by child care providers or parents to the proposed changes to child care funding arrangements, which could alter the cost of this proposal.

More generally, there is uncertainty around the baseline data due to limited information about the operation of the new child care system that commenced in July 2018.

The PBO notes that, in order to implement this proposal, the states and territories would be required to make considerable additional preschool funding commitments. The PBO has not undertaken an analysis of any broader industry related implications for either child care providers or the preschool system that may result from this proposal.

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

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-3,695	-4,620	-5,928	-6,391	-20,631
Underlying cash balance	-3,520	-4,584	-5,914	-6,373	-20,389

(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.

Key assumptions

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

Component 1 – Preschool

- Four-year-old preschool enrolment would remain unchanged; however these children are assumed to increase their preschool use in response to the proposal.
- The proportion of three-year-old children accessing preschool programs in long day care or formal early childhood education settings would rise from 60 per cent currently to around 90 per cent after the first three years of the proposal. This largely reflects the inclusion of three-year-old children who would have been cared for at home progressively enrolling in a preschool program. This transition period is shorter than when the preschool funding agreement was introduced, reflecting subsequent developments in the early childhood education sector.
- Families with three-year-old children who currently use more care than the proposed free preschool hours each fortnight would continue to use some child care services to cover the additional hours of required care.
- Capital funding would be used by states and territories to expand capacity in government preschools.

Component 2 – Child care changes

- Child care use would increase in response to the additional child care funding provided under this proposal. This would largely reflect an increase in the number of subsidised days and hours used.
 - Children who currently use little or no formal child care would take up free formal child care for up to three days a week.
- Child care fee growth is in line with Department of Education and Training estimates over the 2019-20 Budget forward estimates period and is based on PBO projections over the medium term.
- The necessary arrangements would be implemented to ensure that child care funding would be calculated net of preschool funding.
 - Fifty per cent of Commonwealth preschool funding would be included in child care subsidy funding calculation, reducing the amount of child care subsidy funding paid.
 - The legislative changes required to implement this proposal would be drafted to remove the ability of care providers/parents to claim full child care subsidy funding and full preschool funding in respect of the same care session.

Methodology

Component 1 – Preschool

The financial implications for Element 1 were calculated by multiplying the estimated number of four-year-old children expected to attend preschool by the historical per-child cost of providing preschool, adjusted over time for changes in the consumer price index. An allowance was made to remove the ability of care providers/parents to claim full child care subsidy funding and full preschool funding in respect of the same care session, which has a relatively small impact on the costing.

- Because the current preschool funding agreement concludes at the end of the 2020 calendar year and has not been included in the budget baseline from that time, this costing includes the full cost of providing preschool to four-year-old children from 1 January 2021.

The financial implications for Element 2 were calculated by multiplying the number of three-year-old children who are expected to attend preschool programs by the estimated per-child cost of preschool, less the estimated savings in child care funding resulting from arrangements that this funding would be calculated net of preschool funding.

A one-off departmental expense amount for the negotiation of the ongoing preschool funding under the proposed National Partnership Agreement was included.

Component 2 – Child care changes

Administered expense estimates were calculated over the 2019-20 Budget forward estimates period using the Department of Education and Training child care model. The model used a 20 per cent sample of 2016-17 unit record child care payment administrative data. The PBO extended the model over the medium term using relevant parameters. The model simulates child care administered expenses under both the current child care system and the proposal. The difference between the proposed and baseline expense amounts represents the financial impact of the proposal.

A behavioural response has been included to account for children who currently use little or no formal child care and who would be expected to increase their use of formal child care for up to three days under the proposal.

Underlying cash balance implications were estimated by applying a 5 per cent timing difference to the fiscal balance implications to reflect the withholding rule that applies to child care payments.

Departmental expense estimates were calculated using the Department of Human Services unit price funding model which calculates results based on the estimated number of affected recipients.

Component 3 – Capital funding

Capital funding specified in Component 3 was added to the financial implications. Departmental costs reflect the impact of an increase in expenses related to drafting program guidelines and assessing grant applications.

All components

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

Data sources

The Department of Education and Training provided 2016-17 child care administrative data.

The Department of Finance provided 2019-20 Budget indexation parameters.

Commonwealth of Australia, 2019. *2019-20 Budget*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2018. *2018-19 Budget*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2018. *2018-19 Mid-Year Economic and Fiscal Outlook*, Canberra: Commonwealth of Australia.

Council on Federal Financial Relations, 2017. *Universal Access to Early Childhood Education – 2016 and 2017*.

Productivity Commission (various), *Report on Government Services*, Productivity Commission, Canberra.

The Treasury, 2012. *Estimating net child care price elasticities of partnered women with pre-school children using a discrete structural labour supply-child care model*. [Online] Available at: <https://treasury.gov.au/publication/estimating-net-child-care-price-elasticities-of-partnered-women-with-pre-school-children-using-a-discrete-structural-labour-supply-child-care-model>.

Attachment A – Invest in childcare by abolishing the activity test and raising the income threshold – financial implications

Table A1: Invest in childcare by abolishing the activity test and raising the income threshold – Fiscal balance (\$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
Expenses													
<i>Administered</i>													
Component 1 – Preschool													
<i>Make preschool ongoing for four-year-olds for up to 24 hours per child per week</i>	-	-218	-734	-778	-831	-884	-935	-978	-1,016	-1,053	-1,090	-1,729	-8,516
<i>Reduced child care subsidy payments for four-year-olds</i>	-	52	109	115	125	135	144	153	162	171	180	276	1,347
<i>Provide preschool to three-year-olds for up to 24 hours per child per week</i>	-	-194	-707	-752	-797	-843	-881	-919	-958	-998	-1,031	-1,653	-8,080
<i>Reduced child care subsidy payments for three-year-olds</i>	-	87	184	195	212	228	243	258	274	289	304	466	2,274
Component 2 – Child care changes													
<i>Child care subsidy costs for all children</i>	-3,130	-3,249	-3,403	-3,604	-3,915	-4,213	-4,498	-4,778	-5,061	-5,338	-5,631	-13,385	-46,819
<i>Increased child care subsidy use</i>	-358	-1,089	-1,370	-1,560	-1,606	-1,673	-1,736	-1,818	-1,908	-2,000	-2,073	-4,377	-17,190
Component 3 – Capital funding													
<i>Capital funding</i>	-200	-	-	-	-	-	-	-	-	-	-	-200	-200
Total – administered	-3,688	-4,611	-5,921	-6,384	-6,812	-7,250	-7,663	-8,082	-8,507	-8,929	-9,341	-20,602	-77,184
<i>Departmental</i>													
Component 1 – Preschool													
<i>Extending universal access to preschool</i>	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
Component 2 – Child care changes													
<i>Establishment and system changes</i>	-	-4	-1	-	-	-	-	-	-	-	-	-5	-5
<i>Additional child care subsidy beneficiaries</i>	-2	-5	-6	-7	-7	-7	-7	-7	-7	-7	-7	-19	-67
Component 3 – Capital funding													
<i>Draft program guidelines and assess grant applications</i>	-3	-	-	-	-	-	-	-	-	-	-	-3	-3
Total – departmental	-7	-9	-7	-29	-77								
Total – expenses	-3,695	-4,620	-5,928	-6,391	-6,819	-7,257	-7,670	-8,089	-8,514	-8,936	-9,348	-20,631	-77,261

(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.

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

- Indicates nil.

Table A2: Invest in childcare by abolishing the activity test and raising the income threshold – Underlying cash balance (\$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
Payments													
<i>Administered</i>													
Component 1 – Preschool													
<i>Make preschool ongoing for four-year-olds for up to 24 hours per child per week</i>	-	-218	-734	-778	-831	-884	-935	-978	-1,016	-1,053	-1,090	-1,729	-8,516
<i>Reduced child care subsidy payments for four-year-olds</i>	-	49	106	115	125	134	144	153	162	171	180	270	1,338
<i>Provide preschool to three-year-olds for up to 24 hours per child per week</i>	-	-194	-707	-752	-797	-843	-881	-919	-958	-998	-1,031	-1,653	-8,080
<i>Reduced child care subsidy payments for three-year-olds</i>	-	83	179	194	211	227	242	258	273	288	304	456	2,259
Component 2 – Child care changes													
<i>Child care subsidy costs for all children</i>	-2,973	-3,243	-3,395	-3,594	-3,899	-4,199	-4,484	-4,764	-5,046	-5,324	-5,617	-13,205	-46,537
<i>Increased child care subsidy use</i>	-340	-1,052	-1,356	-1,551	-1,603	-1,670	-1,733	-1,814	-1,903	-1,996	-2,069	-4,299	-17,087
Component 3 – Capital funding													
<i>Capital funding</i>	-200	-	-	-	-	-	-	-	-	-	-	-200	-200
Total – administered	-3,513	-4,575	-5,907	-6,366	-6,794	-7,235	-7,647	-8,064	-8,488	-8,912	-9,323	-20,360	-76,823
<i>Departmental</i>													
Component 1 – Preschool													
<i>Extending universal access to preschool</i>	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
Component 2 – Child care changes													
<i>Establishment and system changes</i>	-	-4	-1	-	-	-	-	-	-	-	-	-5	-5
<i>Additional child care subsidy beneficiaries</i>	-2	-5	-6	-7	-7	-7	-7	-7	-7	-7	-7	-19	-67
Component 3 – Capital funding													
<i>Draft program guidelines and assess grant applications</i>	-3	-	-	-	-	-	-	-	-	-	-	-3	-3
Total – departmental	-7	-9	-7	-29	-77								
Total – payments	-3,520	-4,584	-5,914	-6,373	-6,801	-7,242	-7,654	-8,071	-8,495	-8,919	-9,330	-20,389	-76,900

(a) 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.

- Indicates nil.