



Policy costing

Labor's plan for cheaper child care		
Party:	Australian Labor Party	
Summary of proposal:		
This proposal would increase the child care subsidy rates and income thresholds as follows.		
Current annual family income thresholds	Current child care subsidy rate (per cent)	Proposed child care subsidy rate (per cent)
Up to \$68,164	85	100
\$68,165 to \$100,000	Tapered reduction from 85 to 50	Tapered reduction from 100 to 85
\$100,001 to \$173,164		Tapered reduction from 85 to 60
\$173,365 to \$252,454	50	50
\$252,455 to \$342,454	Tapered reduction from 50 to 20	Tapered reduction from 50 to 20
\$342,455 to \$352,454	20	20
\$352,455 or more	0	0
The proposal would have effect from 1 July 2020.		

Costing overview

This proposal would be expected to decrease the fiscal balance by \$4,047 million and decrease underlying cash balance by \$3,975 million over the 2019-20 Budget forward estimates period. On a fiscal balance basis, the impact reflects an increase in administered expenses of \$4,043 million and an increase in departmental expenses of \$4 million for system implementation costs.

The underlying cash balance impact differs from 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 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](#).

There is significant uncertainty around the baseline data that were used in this costing as there is limited information available about the operation of the new child care system that commenced in July 2018 and forms the baseline for this costing. The costing is also sensitive to assumptions regarding future child care use, growth in child care fees, and growth in family incomes.

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 early childhood education election commitments (*National Preschool and Kindy Program* (PER307) and *Better pay for early childhood educators* (PER348)).

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 families' choices between attending child care or preschool. 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	-4	-1,254	-1,348	-1,441	-4,047
Underlying cash balance	-4	-1,191	-1,343	-1,436	-3,975

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

- Child care use would increase as a result of the proposal, reflecting the additional incentives (above those already reflected in the baseline policy) for families to change their behaviour.¹
- Growth in child care expenditure over the medium term is based on the assumption that growth in child care fees would gradually converge to wages growth over this period.

Methodology

Administered costs were calculated by modifying the child care subsidy rates and income thresholds as specified within the Department of Education and Training child care model, using a 20 per cent sample of 2016-17 unit record child care payment administrative data adjusted for the 2018 changes to child care subsidy arrangements. These costs were adjusted by the small behavioural response outlined above.

The underlying cash balance financial implications were estimated by reducing the fiscal balance estimates by 5 per cent, reflecting the timing difference that results from the current child care subsidy withholding arrangements.

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

¹ 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.*

Data sources

The Department of Education and Training provided its child care model and data.

The Department of Finance provided 2019 Pre-election Economic and Fiscal Outlook indexation parameters.

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

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 – Labor’s plan for cheaper child care – financial implications

Table A1: Labor’s plan for cheaper child care – 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>	-	-1,254	-1,348	-1,441	-1,542	-1,595	-1,649	-1,705	-1,762	-1,821	-1,882	-4,043	-15,999
<i>Departmental</i>	-4	-	-	-	-	-	-	-	-	-	-	-4	-4
Total – expenses	-4	-1,254	-1,348	-1,441	-1,542	-1,595	-1,649	-1,705	-1,762	-1,821	-1,882	-4,047	-16,003

(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: Labor’s plan for cheaper child care – 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>	-	-1,191	-1,343	-1,436	-1,537	-1,592	-1,646	-1,702	-1,759	-1,818	-1,879	-3,971	-15,905
<i>Departmental</i>	-4	-	-	-	-	-	-	-	-	-	-	-4	-4
Total – payments	-4	-1,191	-1,343	-1,436	-1,537	-1,592	-1,646	-1,702	-1,759	-1,818	-1,879	-3,975	-15,909

(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.