



Policy costing

National Preschool and Kindy Program	
Party:	Australian Labor Party
Summary of proposal: <p>This proposal has two components that relate to the National Partnership Agreement on Universal Access to Early Childhood Education, which determines Commonwealth, state and territory funding for preschool attendance. The current agreement concludes at the end of the 2020 calendar year.</p> <ul style="list-style-type: none">• Component 1 would make preschool funding for four-year-old children ongoing and would provide free access for up to 600 hours per child per year across all preschool settings from 1 January 2021. The current state-to-Commonwealth funding ratio would remain unchanged.• Component 2 would provide ongoing preschool funding to allow free access to preschool for three-year-old children for up to 600 hours per year across all preschool settings from 1 January 2021. The current state-to-Commonwealth preschool funding ratio would also apply to three-year-old children. <p>The proposal would also provide \$100 million of capital grant funding to provide extra capacity in places of need, evenly distributed across 2019-20 and 2020-21.</p>	

Costing overview

This proposal would be expected to decrease the fiscal balance by \$1,788 million and underlying cash balance by \$1,796 million over the 2019-20 Budget forward estimates period. On a fiscal balance basis, this impact reflects an increase in administered expenses of \$1,783 million and a relatively small increase in departmental expenses of \$5 million over this period.

The underlying cash balance impact differs to the fiscal balance impact because of a timing difference between when child care subsidy 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 an impact that extends beyond the 2019-20 Budget forward estimates period. Detailed financial implications over the period to 2029-30 are included at [Attachment A](#).

The financial implications of this proposal are sensitive to several factors including the following.

- Assumed increases in preschool enrolment rates over time, which is expected to be driven by the proposed preschool funding for three-year-old children 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 subsidy funding due to the provision of preschool funding is uncertain because of the uncertainty about baseline interactions between the preschool and child care funding mechanisms.

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.

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 (*Labor's plan for cheaper child care* (PER305) 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	-55	-218	-727	-788	-1,788
Underlying cash balance	-55	-222	-731	-788	-1,796

(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.

- Four-year-old preschool enrolment would remain unchanged over the medium term.
- 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 could be used by states and territories to expand capacity in government preschools, noting that this capital funding would be subject to a competitive grants process.

Methodology

The financial implications for Component 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 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 Component 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 ensure 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.

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

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*, Canberra: Productivity Commission.

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 – National Preschool and Kindy Program – financial implications

Table A1: National Preschool and Kindy Program – 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													
<i>Make preschool ongoing for four-year-olds for up to 15 hours per child per week</i>	-	-136	-459	-487	-520	-553	-585	-612	-636	-659	-682	-1,082	-5,328
<i>Consequential reduction in child care funding for four-year-olds</i>	-	30	63	66	72	77	83	88	93	98	104	159	773
Component 2													
<i>Provide ongoing preschool to three-year-olds for up to 15 hours per child per week</i>	-	-99	-409	-449	-484	-512	-541	-569	-596	-624	-645	-957	-4,929
<i>Consequential reduction in child care funding for three-year-olds</i>	-	37	78	82	89	96	103	109	115	122	128	197	959
Capital													
<i>Capital funding</i>	-50	-50	-	-	-	-	-	-	-	-	-	-100	-100
Total – administered	-50	-218	-727	-788	-843	-892	-940	-984	-1,024	-1,063	-1,095	-1,783	-8,625
<i>Departmental</i>													
<i>Extending universal access to preschool program</i>	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
<i>Draft program guidelines and assess grant applications</i>	-3	-	-	-	-	-	-	-	-	-	-	-3	-3
Total – departmental	-5	-	-	-	-	-	-	-	-	-	-	-5	-5
Total – expenses	-55	-218	-727	-788	-843	-892	-940	-984	-1,024	-1,063	-1,095	-1,788	-8,630

(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: National Preschool and Kindy Program – 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													
<i>Make preschool ongoing for four-year-olds for up to 15 hours per child per week</i>	-	-136	-459	-487	-520	-553	-585	-612	-636	-659	-682	-1,082	-5,328
<i>Consequential reduction in child care funding for four-year-olds</i>	-	28	61	66	72	77	82	88	93	98	103	155	768
Component 2													
<i>Provide ongoing preschool to three-year-olds for up to 15 hours per child per week</i>	-	-99	-409	-449	-484	-512	-541	-569	-596	-624	-645	-957	-4,929
<i>Consequential reduction in child care funding for three-year-olds</i>	-	35	76	82	89	96	102	109	115	121	128	193	953
Capital													
<i>Capital funding</i>	-50	-50	-	-	-	-	-	-	-	-	-	-100	-100
Total – administered	-50	-222	-731	-788	-843	-892	-942	-984	-1,024	-1,064	-1,096	-1,791	-8,636
<i>Departmental</i>													
<i>Extending universal access to preschool program</i>	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
<i>Draft program guidelines and assess grant applications</i>	-3	-	-	-	-	-	-	-	-	-	-	-3	-3
Total – departmental	-5	-	-	-	-	-	-	-	-	-	-	-5	-5
Total – payments	-55	-222	-731	-788	-843	-892	-942	-984	-1,024	-1,064	-1,096	-1,796	-8,641

(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.