



Cheaper Child Care

Party: Australian Labor Party

Summary of proposal:

This option would provide families with either the Child Care Subsidy (CCS) rates as set out in the table below, or the existing baseline CCS rates, depending on the subsidy calculation which is most generous to the family. The revised CCS rates would apply from 1 July 2023 to 30 June 2026, at which point the program would revert to existing policy settings.

Second (or subsequent) children of families with more than one child under six in child care would receive:

Family Income	Current Child Care Subsidy rate (%)	Proposed Child Care Subsidy rate (%)
Up to \$72,466	95	95
Between \$72,467 and \$80,000		
Between \$80,001 and \$132,466		
Between \$132,467 and \$177,466	Tapered reduction from 95 to 80. (The percentage goes down by 1% for every \$3,000 increase in family income.)	Tapered reduction from 95 to 80. (The percentage goes down by 1% for every \$3,000 increase in family income.)
Between \$177,467 and \$256,756	80	80
Between \$256,757 and \$346,756	Tapered reduction from 80 to 50. (The percentage goes down by 1% for every \$3,000 increase in family income.)	Tapered reduction from 80 to 50. (The percentage goes down by 1% for every \$3,000 increase in family income.)
Between \$346,757 and \$356,756	50	50
Between \$356,757 and \$532,000	0	Tapered reduction from 35 to 0. (The percentage goes down by 0.2% for every \$1,000 increase in family income.)

Other children would receive:

Family Income	Current Child Care Subsidy rate (%)	Proposed Child Care Subsidy rate (%)
Up to \$72,466	85	90
Between \$72,467 and \$80,000	Tapered reduction from 85 to 50. (The percentage goes down by 1% for every \$3,000 increase in family income.)	90
Between \$80,001 and \$177,466		Tapered reduction from 90 to 0. (The percentage goes down by 0.2% for every \$1,000 increase in family income.)
Between \$177,467 and \$256,756	50	
Between \$256,757 and \$346,756	Tapered reduction from 50 to 20. (The percentage goes down by 1% for every \$3,000 increase in family income.)	

Between \$346,757 and \$356,756	20	
Above \$356,756	0	

The Productivity Commission would be provided \$1 million in 2022-23 to conduct a comprehensive review of the sector with the aim of implementing a universal 90 per cent subsidy for all families and the Australian Competition and Consumer Commission would be tasked with designing a price regulation mechanism to reduce out of pocket costs.

Costing overview

The proposal would be expected to decrease the fiscal balance by \$5,166 million and the underlying cash balance by \$5,073 million over the 2022-23 Budget forward estimates period. The impact reflects an increase in administered and departmental expenses over this period.

The proposal would have ongoing impacts 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.

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% of CCS entitlements in a financial year being withheld and paid in the following year under the current system. This withholding amount allows any overpaid amounts to be recovered when entitlements and payments are reconciled at the end of the year.

The family income thresholds for CCS rates in 2023-24 are different to the original proposal specification due to the updated indexation parameters as of the *Pre-election Economic and Fiscal Outlook 2022*.

The financial implications of this proposal are sensitive to several factors, including:

- uncertainty around the baseline data due to limited information about the operation of the new child care system that only commenced in July 2018
- significant uncertainty around the behavioural response of parents in response to the proposal
- uncertainty around the actual child care expenditures by family income over the 2022-23 Budget forward estimates period and the medium term.

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

	2022-23	2023-24	2024-25	2025-26	Total to 2025-26
Fiscal balance	-6.0	-1,604.7	-1,715.4	-1,839.4	-5,165.5
Underlying cash balance	-6.0	-1,523.8	-1,710.8	-1,832.6	-5,073.2

(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.

Key assumptions

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

- Child care use would increase under the proposal, reflecting the additional incentives (above those already reflected in the baseline policy) for parents to change their behaviour and use more child care.¹ This would largely reflect an increase in the number of subsidised days and hours used.
 - It has been assumed that the behavioural impact would apply evenly across all income levels.
- Child care fees would grow in line with the Department of Education, Skills and Employment estimates over the 2022-23 Budget forward estimates period and the Treasury's child care expenditure estimates over the remaining years of the medium term.

Methodology

Administered expense estimates were calculated over the 2022-23 Budget forward estimates period using the Department of Education, Skills and Employment's child care model. The PBO then adjusted for the behavioural response using the methodology outlined above. The model estimates 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.

Departmental expense estimates were calculated based on similar proposals to reflect the initial implementation costs (\$5 million) and the \$1 million provided to the Productivity Commission to undertake the review of the sector.

The underlying cash balance implications were estimated by applying a 5% timing difference to the fiscal balance implications to reflect the withholding rule that applies under the current child care arrangements.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costing and budget information webpage.²

Data sources

The Department of Education, Skills and Employment provided the *2022-23 Budget* child care model.

The Department of Treasury provided the child care expenditure projections as at *2022-23 Budget*.

The Department of Education, Skills and Employment, *Child Care in Australia report Financial year 2018-19*. [Online] Available at: <https://www.education.gov.au/child-care-australia-report-financial-year-2018-19>.

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>.

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*.

² https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Cheaper Child Care – financial implications

Table A1: Cheaper Child Care – Fiscal balance (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Expenses													
<i>Administered</i>													
<i>Total – administered</i>	-	-1,604.7	-1,715.4	-1,839.4	-	-	-	-	-	-	-	-5,159.5	-5,159.5
<i>Departmental</i>													
<i>Total – departmental</i>	-6.0	-	-	-	-	-	-	-	-	-	-	-6.0	-6.0
Total – expenses	-6.0	-1,604.7	-1,715.4	-1,839.4	-	-5,165.5	-5,165.5						
Total (excluding PDI)	-6.0	-1,604.7	-1,715.4	-1,839.4	-	-5,165.5	-5,165.5						

(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) Income thresholds are as at 2022-23 Budget.

- Indicates nil.

Table A2: Cheaper Child Care – Underlying cash balance (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Payments													
<i>Administered</i>													
Total – administered	-	-1,523.8	-1,710.8	-1,832.6	-	-	-	-	-	-	-	-5,067.2	-5,067.2
<i>Departmental</i>													
Total – departmental	-6.0	-	-	-	-	-	-	-	-	-	-	-6.0	-6.0
Total – payments	-6.0	-1,523.8	-1,710.8	-1,832.6	-	-	-	-	-	-	-	-5,073.2	-5,073.2
Total (excluding PDI)	-6.0	-1,523.8	-1,710.8	-1,832.6	-	-	-	-	-	-	-	-5,073.2	-5,073.2

(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) Income thresholds are as at 2022-23 Budget.

- Indicates nil.

Table A3: Cheaper Child Care –Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Fiscal balance	..	-17.0	-54.0	-96.0	-119.0	-122.0	-126.0	-130.0	-134.0	-138.0	-143.0	-167.0	-1,079.0
Underlying cash balance	..	-15.0	-50.0	-91.0	-116.0	-122.0	-125.0	-129.0	-133.0	-138.0	-143.0	-156.0	-1,062.0

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary³.

(b) 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. 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.

.. Not zero but rounded to zero.

³ [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)