



### Free Early Childhood Education and Childcare for All

Party:

Australian Greens

Summary of proposal:

The proposal has three parts.

- Part 1 has two components that relate to the Preschool Reform Funding National Partnership Agreement (NPA) which determines Commonwealth and state and territory (state) government funding for preschool attendance. The current NPA begins in 2022 and ends in 2025. The Commonwealth has also committed ongoing funding through the 2021-22 Budget measure – *Guaranteeing universal access to preschool*.
  - Component 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 roles and responsibilities of the Commonwealth and states would remain unchanged.
  - Component 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 roles and responsibilities of the Commonwealth and states would also apply to three-year-old children.
  - Part 1 would also result in a decrease in expenditure on the Child Care Subsidy (CCS) as families substitute from childcare to preschool settings.
- Part 2 would provide to all families 100 hours per fortnight of childcare fully subsidised up to the existing CCS hourly fee-cap. The CCS activity test, income test and annual fee cap would all be removed.
- Part 3 would provide \$200 million of grant funding to reduce waiting lists for community and non-profit (including local government-run) childcare 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.

The proposal would have effect from 1 January 2023.

### Costing overview

This proposal would be expected to decrease the fiscal balance by around \$23,370 million and the underlying cash balance by around \$22,870 million over the 2022-23 Budget forward estimates period. On a fiscal balance basis, the impact reflects an increase in administered expenses of around \$23,340 million and an increase in departmental expenses of around \$30 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% of CCS entitlements in a financial year being withheld and paid in the following year. This

withholding amount would likely still be required to allow any overpaid amounts to be recovered when entitlements and payments are reconciled at the end of the year.

The proposal would have an 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.

## Uncertainties

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

- The behavioural response of parents as to how much additional preschool and childcare services they would seek under the proposal.
  - We have assumed an increase in preschool and childcare enrolment rates over time, driven by the increased funding. Although the direction of the behavioural change is relatively certain, the magnitude may vary significantly.
  - The Parliamentary Budget Office (PBO) has not undertaken any analysis to determine the additional take-up rates that could be achieved through the \$200 million capped funding.
- The estimated cost of providing preschool services to three-year-old children.
- Uncertainty associated with how the childcare and preschool systems would interact under this proposal, in particular, where preschool and child care are provided in the same setting.
  - Preschool funding should reduce childcare expenditures for parents, hence lowering the CCS amounts needed from the Commonwealth Government. However, there is limited information on how the two funding mechanisms are being accessed by providers.
- Any supplier response to this proposal, which may lead to changes in costs.

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

The PBO notes that, in order to implement this proposal, states and territories would be required to make considerable additional preschool funding commitments to match the additional Commonwealth preschool expenditure.

The PBO has not undertaken an analysis of any broader industry-related implications for either childcare providers or the preschool system that may result from this proposal. For instance, we have not analysed any changes in the number of employees in the early childhood education sector in response to this proposal. The proposal may create capacity issues for the sector, particularly in the first few years, which could affect the implementation of the policy and its costs.

The PBO has considered the potential revenue impacts of this proposal but have not included them in this costing, given the uncertainty around how increased subsidies and the removal of the activity test would translate through to workforce participation.

**Table 1: Financial implications (\$m)<sup>(a)(b)</sup>**

	2022-23	2023-24	2024-25	2025-26	Total to 2025-26
Fiscal balance	-2,801.4	-6,078.6	-7,042.8	-7,450.5	<b>-23,373.3</b>
Underlying cash balance	-2,601.4	-5,878.6	-6,942.8	-7,450.5	<b>-22,873.3</b>

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

### Part 1 – Preschool

- Four-year-old preschool enrolments would remain unchanged, however these children are assumed to increase their hours of preschool attendance 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 around 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 into a preschool program. The transition period is shorter than when four-year old children were brought into the system, reflecting that earlier experience.
- Families with three-year-old children who currently use more care than the proposed free preschool hours each fortnight would use childcare services to cover the additional hours of required care, particularly when childcare is largely free of charge under Part 2 of the proposal.
- Capital funding would be used by state governments to expand capacity in government preschools.

### Part 2 – Childcare

- Childcare use would increase in response to the additional childcare 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 childcare would take up free formal childcare for up to three days a week (based on the current average number of days of care for those currently using formal childcare).
- Childcare fee growth is in line with Department of Education, Skills and Employment estimates over the 2021-22 Budget forward estimates period and is based on PBO projections over the medium term.
- The necessary arrangements would be implemented to ensure that childcare funding would be calculated net of preschool funding. Commonwealth preschool funding would be included in CCS funding calculations for childcare centres with preschool programs, reducing the amount of CCS funding paid to these centres.

### Part 3 – Capital funding and salary expenses

- The full \$200m specified under this proposal will be provided within the 2022-23 fiscal year.

## Methodology

### Part 1 – Preschool

The financial implications for Component 1 were calculated by multiplying the projected ongoing costs of providing preschool for four-year-olds by the increase in weekly hours specified in the proposal. An allowance was made to remove the ability of care providers to claim full CCS funding and full preschool funding in respect of the same care session. This saving is assumed to apply to sessions currently claimed by providers under the existing 15-hour per week preschool funding arrangements, in addition to the further preschool hours provided under this proposal.

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 childcare funding resulting from arrangements that this funding would be calculated net of preschool funding.

This costing includes the full cost of providing preschool to four-year-old and three-year-old children for up to 24 hours from 1 January 2023. Due to the funding being on a calendar-year rather than financial-year basis the first year reflects only a part-year financial impact.

A one-off departmental expense amount for the establishment of a new NPA was included, based on the costs associated with establishing the current NPA.

### Part 2 – Childcare

Administered expense estimates were calculated over the 2022-23 Budget forward estimates period using the Department of Education, Skills and Employment's 2022-23 Budget childcare model. The model estimates childcare administered expenses under both the current childcare system and this proposal. The difference between the proposed and baseline expense amounts represents the fiscal impact of the proposal. The PBO extended the model over the medium-term using Treasury's projections for CCS expenditure.

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

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 childcare arrangements.

Ongoing departmental expense estimates were calculated using Services Australia's unit price funding model which calculates results based on the estimated number of affected recipients.

### Part 3 – Capital funding and salary expenses

This component is capped grant funding. Departmental costs reflect the impact of an increase in expenses related to drafting program guidelines and assessing grant applications.

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

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<sup>1</sup> [https://www.apb.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/Costings\\_and\\_budget\\_information](https://www.apb.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information)

## Data sources

The Department of Education, Skills and Employment provided their childcare model as at the *2022-23 Budget*.

The Department of Education, Skills and Employment and the Treasury provided information related to the 2021-22 Budget measure - *Guaranteeing universal access to preschool* and the Preschool Reform Funding Agreement.

The Department of Finance and the Treasury provided economic parameters as at the Pre-election Economic and Fiscal Outlook 2022.

The Treasury provided projections for CCS payments as at the *2022-23 Budget*.

Australian Government, *2022-23 Budget*, Australian Government, 2022.

Australian Government, *2020-21 MYEFO*, Australian Government, 2020.

Australian Government, *2019-20 Budget*, Australian Government, 2019.

Australian Government, *2018-19 Budget*, Australian Government, 2018.

Productivity Commission, *Productivity Commission Inquiry Report - Childcare and Early Childhood Learning*, Productivity Commission, Australian Government, 2015.

Productivity Commission, *Report on Government Services*, Productivity Commission, Australian Government, various.

The Treasury, [\*Estimating net child care price elasticities of partnered women with pre-school children using a discrete structural labour supply-child care model\*](#), 2012, accessed on 28 April 2022.

## Attachment A – Free Early Childhood Education and Childcare for All – financial implications

**Table A1: Free Early Childhood Education and Childcare for All – Fiscal balance (\$m)<sup>(a)</sup>**

	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
<b>Expenses</b>													
<b>Administered</b>													
<i>Part 1</i>													
<i>Extend preschool for 4-year-olds to 24 hours per week</i>	-82.0	-275.0	-277.0	-280.0	-290.0	-300.0	-311.0	-321.0	-330.0	-341.0	-351.0	-914.0	-3,158.0
<i>Reduced CCS payments for 4-year-olds</i>	105.0	218.0	223.0	228.0	232.0	235.0	238.0	241.0	243.0	245.0	248.0	774.0	2,456.0
<i>Provide preschool to 3-year-olds for 24 hours per week</i>	-136.0	-570.0	-643.0	-658.0	-675.0	-693.0	-710.0	-728.0	-746.0	-765.0	-784.0	-2,007.0	-7,108.0
<i>Reduced CCS expenses for 3-year-olds</i>	123.0	255.0	261.0	267.0	271.0	275.0	279.0	282.0	284.0	287.0	290.0	906.0	2,874.0
<i>Part 2</i>													
<i>CCS expenses for all children</i>	-2,600.0	-5,700.0	-6,600.0	-7,000.0	-7,500.0	-8,000.0	-8,500.0	-9,100.0	-9,600.0	-10,200.0	-10,800.0	-21,900.0	-85,600.0
<i>Part 3</i>													
<i>Capital funding</i>	-200.0	-	-	-	-	-	-	-	-	-	-	-200.0	-200.0
<b>Total – administered</b>	<b>-2,790.0</b>	<b>-6,072.0</b>	<b>-7,036.0</b>	<b>-7,443.0</b>	<b>-7,962.0</b>	<b>-8,483.0</b>	<b>-9,004.0</b>	<b>-9,626.0</b>	<b>-10,149.0</b>	<b>-10,774.0</b>	<b>-11,397.0</b>	<b>-23,341.0</b>	<b>-90,736.0</b>
<b>Departmental</b>													
<i>Part 1</i>													
<i>Extending universal access to preschool</i>	-1.4	-2.6	-2.4	-2.5	-	-	-	-	-	-	-	-8.9	-8.9
<i>Part 2</i>													
<i>Establishment and system changes</i>	-4.0	-1.0	-	-	-	-	-	-	-	-	-	-5.0	-5.0
<i>Additional Child Care Subsidy beneficiaries</i>	-1.0	-3.0	-4.4	-5.0	-5.4	-5.6	-5.9	-6.2	-6.5	-6.9	-7.3	-13.4	-57.2

	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
<i>Part 3</i>													
<i>Draft program guidelines and assess grant applications</i>	-5.0	-	-	-	-	-	-	-	-	-	-	-5.0	-5.0
<b>Total – departmental</b>	<b>-11.4</b>	<b>-6.6</b>	<b>-6.8</b>	<b>-7.5</b>	<b>-5.4</b>	<b>-5.6</b>	<b>-5.9</b>	<b>-6.2</b>	<b>-6.5</b>	<b>-6.9</b>	<b>-7.3</b>	<b>-32.3</b>	<b>-76.1</b>
<b>Total – expenses</b>	<b>-2,801.4</b>	<b>-6,078.6</b>	<b>-7,042.8</b>	<b>-7,450.5</b>	<b>-7,967.4</b>	<b>-8,488.6</b>	<b>-9,009.9</b>	<b>-9,632.2</b>	<b>-10,155.5</b>	<b>-10,780.9</b>	<b>-11,404.3</b>	<b>-23,373.3</b>	<b>-90,812.1</b>
<b>Total (excluding PDI)</b>	<b>-2,801.4</b>	<b>-6,078.6</b>	<b>-7,042.8</b>	<b>-7,450.5</b>	<b>-7,967.4</b>	<b>-8,488.6</b>	<b>-9,009.9</b>	<b>-9,632.2</b>	<b>-10,155.5</b>	<b>-10,780.9</b>	<b>-11,404.3</b>	<b>-23,373.3</b>	<b>-90,812.1</b>

(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.

- Indicates nil.

**Table A2: Free Early Childhood Education and Childcare for All – Underlying cash balance (\$m)<sup>(a)</sup>**

	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
<b>Payments</b>													
<b>Administered</b>													
<i>Part 1</i>													
<i>Extend preschool for 4-year-olds to 24 hours per week</i>	-82.0	-275.0	-277.0	-280.0	-290.0	-300.0	-311.0	-321.0	-330.0	-341.0	-351.0	-914.0	-3,158.0
<i>Reduced CCS payments for 4-year-olds</i>	105.0	218.0	223.0	228.0	232.0	235.0	238.0	241.0	243.0	245.0	248.0	774.0	2,456.0
<i>Provide preschool to 3-year-olds for 24 hours per week</i>	-136.0	-570.0	-643.0	-658.0	-675.0	-693.0	-710.0	-728.0	-746.0	-765.0	-784.0	-2,007.0	-7,108.0
<i>Reduced CCS expenses for 3-year-olds</i>	123.0	255.0	261.0	267.0	271.0	275.0	279.0	282.0	284.0	287.0	290.0	906.0	2,874.0
<i>Part 2</i>													
<i>CCS expenses for all children</i>	-2,400.0	-5,500.0	-6,500.0	-7,000.0	-7,500.0	-8,000.0	-8,500.0	-9,000.0	-9,600.0	-10,200.0	-10,800.0	-21,400.0	-85,000.0
<i>Part 3</i>													
<i>Capital funding</i>	-200.0	-	-	-	-	-	-	-	-	-	-	-200.0	-200.0
<b>Total – administered</b>	<b>-2,590.0</b>	<b>-5,872.0</b>	<b>-6,936.0</b>	<b>-7,443.0</b>	<b>-7,962.0</b>	<b>-8,483.0</b>	<b>-9,004.0</b>	<b>-9,526.0</b>	<b>-10,149.0</b>	<b>-10,774.0</b>	<b>-11,397.0</b>	<b>-22,841.0</b>	<b>-90,136.0</b>
<b>Departmental</b>													
<i>Part 1</i>													
<i>Extending universal access to preschool</i>	-1.4	-2.6	-2.4	-2.5	-	-	-	-	-	-	-	-8.9	-8.9
<i>Part 2</i>													
<i>Establishment and system changes</i>	-4.0	-1.0	-	-	-	-	-	-	-	-	-	-5.0	-5.0
<i>Additional Child Care Subsidy beneficiaries</i>	-1.0	-3.0	-4.4	-5.0	-5.4	-5.6	-5.9	-6.2	-6.5	-6.9	-7.3	-13.4	-57.2



	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
<i>Part 3</i>													
<i>Draft program guidelines and assess grant applications</i>	-5.0	-	-	-	-	-	-	-	-	-	-	-5.0	-5.0
<b>Total – departmental</b>	<b>-11.4</b>	<b>-6.6</b>	<b>-6.8</b>	<b>-7.5</b>	<b>-5.4</b>	<b>-5.6</b>	<b>-5.9</b>	<b>-6.2</b>	<b>-6.5</b>	<b>-6.9</b>	<b>-7.3</b>	<b>-32.3</b>	<b>-76.1</b>
<b>Total – payments</b>	<b>-2,601.4</b>	<b>-5,878.6</b>	<b>-6,942.8</b>	<b>-7,450.5</b>	<b>-7,967.4</b>	<b>-8,488.6</b>	<b>-9,009.9</b>	<b>-9,532.2</b>	<b>-10,155.5</b>	<b>-10,780.9</b>	<b>-11,404.3</b>	<b>-22,873.3</b>	<b>-90,212.1</b>
<b>Total (excluding PDI)</b>	<b>-2,601.4</b>	<b>-5,878.6</b>	<b>-6,942.8</b>	<b>-7,450.5</b>	<b>-7,967.4</b>	<b>-8,488.6</b>	<b>-9,009.9</b>	<b>-9,532.2</b>	<b>-10,155.5</b>	<b>-10,780.9</b>	<b>-11,404.3</b>	<b>-22,873.3</b>	<b>-90,212.1</b>

(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.

- Indicates nil.

**Table A3: Free Early Childhood Education and Childcare for All – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)<sup>(a)(b)</sup>**

	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
<b><i>Fiscal balance</i></b>	-30.0	-130.0	-280.0	-450.0	-640.0	-870.0	-1,140.0	-1,440.0	-1,800.0	-2,210.0	-2,710.0	<b>-890.0</b>	<b>-11,700.0</b>
<b><i>Underlying cash balance</i></b>	-30.0	-120.0	-260.0	-430.0	-620.0	-840.0	-1,100.0	-1,410.0	-1,760.0	-2,160.0	-2,650.0	<b>-840.0</b>	<b>-11,380.0</b>

- (a) As this table is presented as a memorandum item, these figures are not reflected in the totals in any 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 glossary<sup>2</sup>.
- (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.

<sup>2</sup> [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)