



Parliamentary
Budget Office

Jenny Wilkinson
Parliamentary Budget Officer

Senator Duncan Spender
Senator for New South Wales
Liberal Democratic Party
Parliament House
CANBERRA ACT 2600

Dear Senator Spender

Please find attached a response to your costing request, *Government-funded paid parental leave and child care subsidy* (letter of 15 April 2019, reference number LDP001).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please do not hesitate to contact Colin Brown, First Assistant Parliamentary Budget Officer on (02) 6277 9530.

Yours sincerely

Jenny Wilkinson

10 May 2019



Policy costing – during the caretaker period for the 2019 general election

Government-funded paid parental leave and child care subsidy															
Person/party requesting the costing:	Senator Duncan Spender, Liberal Democratic Party														
Date costing requested:	15 April 2019														
Date costing completed:	9 May 2019														
Expiry date of the costing:	Release of the next economic and fiscal outlook.														
<p>Summary of policy:</p> <p>This policy has three options that relate to the paid parental leave and child care subsidy systems.</p> <ul style="list-style-type: none"> Option 1: Abolish government-funded paid parental leave and the child care subsidy, taking into account the Liberal Democratic Party’s tax policy of a \$40,000 tax free threshold and a 20 per cent flat tax rate thereafter, and the Liberal Democratic Party’s welfare and savings policies, which restrict eligibility for welfare payments. Option 2: Abolish government-funded paid parental leave and modify the existing child care subsidy entitlement such that, within the framework of the existing means testing arrangements, a second means test would apply as per the table below. <p>The second income test would relate to the income of the parent/guardian with the lower taxable income and would discount the child care subsidy rate as follows:</p> <table border="1"> <thead> <tr> <th colspan="2">Lower income earner’s taxable income</th> <th rowspan="2">Discount the child care subsidy rate by:</th> </tr> <tr> <th>From</th> <th>To</th> </tr> </thead> <tbody> <tr> <td>\$0</td> <td>\$85,999</td> <td>0 per cent</td> </tr> <tr> <td>\$86,000</td> <td>\$134,999</td> <td>2 per cent, increasing by 2 per cent for every additional \$1,000 of the second earner taxable income from \$86,000</td> </tr> <tr> <td>\$135,000</td> <td>And over</td> <td>100 per cent</td> </tr> </tbody> </table> <p>This option would also remove carer qualifications and child-to-carer ratio requirements on providers.</p> <ul style="list-style-type: none"> Option 3: As per Option 2, but remove the child care subsidy for children under 18 weeks of age. <p>The proposal would have effect from 1 July 2019.</p>		Lower income earner’s taxable income		Discount the child care subsidy rate by:	From	To	\$0	\$85,999	0 per cent	\$86,000	\$134,999	2 per cent, increasing by 2 per cent for every additional \$1,000 of the second earner taxable income from \$86,000	\$135,000	And over	100 per cent
Lower income earner’s taxable income		Discount the child care subsidy rate by:													
From	To														
\$0	\$85,999	0 per cent													
\$86,000	\$134,999	2 per cent, increasing by 2 per cent for every additional \$1,000 of the second earner taxable income from \$86,000													
\$135,000	And over	100 per cent													

Costing overview

This proposal has three options that would each be expected to increase both the fiscal and underlying cash balances over the 2019-20 Budget forward estimates period, as presented in Table 1.

For each option, the underlying cash balance impact differs from 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.¹ This allows child care subsidy entitlements to be reconciled for any differences in estimated and actual family income for the year.

Each option would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. Financial implications for the period 2019-20 to 2029-30 are provided at Attachment A. There would be a negligible difference between the financial implications of Options 2 and 3 because of the small difference between the policy specifications provided and the rounding used for the costing. The financial implications for these options are presented together at Attachment A.

This proposal has been costed assuming that the Liberal Democratic Party's related policy proposals would also be in operation.² In particular, proposals that would implement large-scale changes to existing personal income tax and transfer payment policies have significant interactions with this proposal. This means that the financial implications of this proposal are subject to the same significant levels of uncertainty affecting those other proposals. The financial implications are also highly sensitive to the assumed behavioural response and flow-on implications to other social welfare payments.

Table 1: Government-funded paid parental leave and child care subsidy – Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Option 1 – Abolish government-funded paid parental leave and child care subsidy systems					
Fiscal balance	5,290	5,590	5,490	5,590	22,060
Underlying cash balance	5,090	5,590	5,490	5,590	21,860
Option 2 – Abolish government-funded paid parental leave and modify child care subsidy rates and thresholds, and remove carer qualifications and child-to-carer ratio requirements					
Fiscal balance	1,850	1,860	1,860	1,960	7,420
Underlying cash balance	1,850	1,850	1,860	1,960	7,420
Option 3 – As per Option 2, but remove the child care subsidy with respect to a child under 18 weeks of age					
Fiscal balance	1,850	1,860	1,860	1,960	7,420
Underlying cash balance	1,850	1,850	1,860	1,960	7,420

(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.

- Indicates nil.

¹ For Options 2 and 3 this difference rounds to zero.

² Liberal Democratic Party costings of previously announced policies are available on the Parliamentary Budget Office website at https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Costings.

Key assumptions

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

- Option 1 includes a behavioural response that in response to the abolition of child care subsidies families currently receiving child care subsidies would reduce their hours of work by an average amount equal to 70 per cent of the secondary earner's work hours in order to care for their children. This has flow-on implications for taxation, unemployment benefits and family payments. Families that do not change their behaviour in response to this proposal are assumed to either pay the full cost of child care or use alternative sources of care.
- Options 2 and 3 are not expected to result in a significant behavioural response in relation to child care because only a very small proportion of high-income families would have their child care subsidy rebate rates reduced under these options.
- Under Options 2 and 3, a very small proportion of families are expected to be affected.
 - Given the specification, families with taxable income below \$172,000 would not be affected by this proposal. (For \$86,000 to represent the lower income earner's taxable income, family taxable income must exceed \$172,000.)
 - ◆ Families with a taxable income of \$172,000 and below account for around 88 per cent of child care subsidy payments.
 - Furthermore, analysis of child care administrative data shows that, on average, the lowest income earner contributes 30 per cent of a family's income. In the context of the current child care subsidy arrangements an \$86,000 threshold applied to the lowest income earner is, on average, equivalent to a \$287,000 threshold applying to family income.
 - ◆ Families with taxable income of \$287,000 and above account for less than 1 per cent of child care subsidy payments.
 - The recent historical average ratio of lowest-earner income to family income is assumed to remain constant over the medium term.
- The financial implications make no allowance for child care providers amending their fees following the removal of the carer qualifications and child-to-carer ratio requirements. This is due to uncertainty as to how the industry, either individually or as a whole, would respond to these changes.

Methodology

Option 1 of this proposal involves abolishing government-funded paid parental leave and the child care subsidy, in combination with the Liberal Democratic Party's other proposals. To estimate the financial implications for Option 1 the PBO used aggregate budget data for the affected programs in conjunction with a modified version of the Policy Evaluation Model (PoEM) of the Australian personal income tax and transfer system. PoEM is a micro-simulation model based on Australian Government administrative data, updated for population projections and other parameters.

The financial implications of removing paid parental leave under Option 2 were estimated based on aggregate budget data noting that the results for this option are consistent with the results for Option 1.

Option 2's child-care-related financial implications were calculated by estimating the total budget impact of the proposal subtracting the total budget impact under the baseline policy setting.

- The total budget impact of the child care component was estimated by modifying PoEM's baseline child care calculation so that the current child care subsidy rates (that are based on family taxable income) are multiplied by the proposed discount rates as set out in the policy specification for Option 2.

Option 3 was estimated by reducing the financial implications for Option 2 by the proportion of children attending child care who are less than 18 weeks of age.

- Around 0.35 per cent of children attending child care are younger than 18 weeks of age. This proportion was extracted from Department of Education and Training child care data.

Departmental expense savings were estimated based on the current departmental cost of administering the paid parental leave and child care subsidy systems.

Child care subsidy (Option 1), paid parental leave and taxation-related financial implications were rounded to the nearest \$100 million. Child care subsidy (Options 2 and 3) and departmental costs were rounded to the nearest \$10 million.

Data sources

Department of Social Services provided PoEM as at the 2018-19 Mid-Year Economic and Fiscal Outlook.

Department of Education and Training provided the child care model as at the 2019-20 Budget.

Department of Social Services provided payment population projections as at the 2019-20 Budget.

Commonwealth of Australia, 2016. *2016-17 Budget*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2019. *2019-20 Mid-Year Economic and Fiscal Outlook*, Canberra: Commonwealth of Australia.

Xiaodong Gong and Robert Breunig, 2012. *Estimating net child care price elasticities of partnered women with pre-school children using a discrete structural labour supply-child care model*. *Treasury Working Paper 2012 – 01*. [Online] Available at <https://treasury.gov.au/sites/default/files/2019-03/Child-Care-Working-Paper.pdf> [Accessed on 15 April 2019].

Attachment A – Government-funded paid parental leave and the child care subsidy – financial implications

Table A1: Government-funded paid parental leave (PPL) and child care subsidy (CCS) – Option 1: Abolish government-funded PPL and CCS systems – Fiscal balance (\$m)^{(a)(b)(c)}

	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
Revenue													
<i>Personal income tax</i>	-1,400	-1,400	-1,500	-1,500	-1,500	-1,500	-1,600	-1,600	-1,700	-1,700	-1,800	-5,700	-17,200
Total – revenue	-1,400	-1,400	-1,500	-1,500	-1,500	-1,500	-1,600	-1,600	-1,700	-1,700	-1,800	-5,700	-17,200
Expenses													
<i>Administered</i>													
<i>Abolish CCS</i>	8,300	8,600	9,100	9,600	10,200	10,800	11,500	12,100	12,900	13,600	14,400	35,700	121,200
<i>CCS social welfare flow-on impacts</i>	-4,000	-4,000	-4,500	-5,000	-5,500	-6,000	-6,400	-6,900	-7,500	-8,100	-8,700	-17,500	-66,600
Total – net impact of CCS changes	4,300	4,600	4,600	4,600	4,700	4,800	5,000	5,200	5,400	5,500	5,700	18,100	54,600
<i>Abolish PPL</i>	2,300	2,400	2,500	2,600	2,600	2,700	2,800	2,900	3,000	3,100	3,200	9,800	30,000
<i>PPL social welfare flow-on impacts</i>	-100	-200	-200	-300	-300	-400	-400	-500	-500	-600	-700	-800	-4,300
Total – net impact of PPL changes	2,200	2,200	2,200	2,300	2,300	2,300	2,400	2,400	2,400	2,500	2,500	8,900	25,800
Total – administered	6,500	6,800	6,800	6,900	7,000	7,100	7,400	7,600	7,800	8,000	8,200	27,000	80,400
<i>Departmental</i>													
<i>Departmental – CCS</i>	160	160	160	160	160	170	170	180	190	190	200	640	1,900
<i>Departmental – PPL</i>	30	30	30	30	30	30	30	30	30	30	40	120	360
Total – departmental	190	190	190	190	190	200	200	210	220	220	240	760	2,260
Total – expenses	6,690	6,990	6,990	7,090	7,190	7,300	7,600	7,810	8,020	8,220	8,440	27,760	82,660
Total	5,290	5,590	5,490	5,590	5,690	5,800	6,000	6,210	6,320	6,520	6,640	22,060	65,460

(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.

(c) Figures assume that the Liberal Democratic Party's related policy proposals would be in operation. Costings of these policies are available on the Parliamentary Budget Office website at

https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Costings.

- Indicates nil.

Table A2: Government-funded paid parental leave (PPL) and child care subsidy (CCS) – Option 1: Abolish government-funded PPL and CSS systems – Underlying cash balance (\$m)^{(a)(b)(c)}

	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
Receipts													
<i>Personal income tax</i>	-1,400	-1,400	-1,500	-1,500	-1,500	-1,500	-1,600	-1,600	-1,700	-1,700	-1,800	-5,700	-17,200
Total – receipts	-1,400	-1,400	-1,500	-1,500	-1,500	-1,500	-1,600	-1,600	-1,700	-1,700	-1,800	-5,700	-17,200
Payments													
<i>Administered</i>													
<i>Abolish CCS</i>	7,900	8,600	9,100	9,600	10,200	10,800	11,400	12,100	12,800	13,600	14,400	35,200	120,400
<i>CCS social welfare flow-on impacts</i>	-3,800	-4,000	-4,500	-5,000	-5,500	-6,000	-6,400	-6,900	-7,500	-8,000	-8,700	-17,300	-66,100
Total – net impact of CCS changes	4,100	4,600	4,600	4,600	4,700	4,800	5,000	5,200	5,300	5,500	5,700	17,900	54,300
<i>Abolish PPL</i>	2,300	2,400	2,500	2,600	2,600	2,700	2,800	2,900	3,000	3,100	3,200	9,800	30,000
<i>PPL social welfare flow-on impacts</i>	-100	-200	-200	-300	-300	-400	-400	-500	-500	-600	-700	-800	-4,300
Total – net impact of PPL changes	2,200	2,200	2,200	2,300	2,300	2,300	2,400	2,400	2,400	2,500	2,500	8,900	25,800
Total – administered	6,300	6,800	6,800	6,900	7,000	7,100	7,400	7,600	7,700	8,000	8,200	26,800	80,100
<i>Departmental</i>													
<i>Departmental – CCS</i>	160	160	160	160	160	170	170	180	190	190	200	640	1,900
<i>Departmental – PPL</i>	30	30	30	30	30	30	30	30	30	30	40	120	360
Total – departmental	190	190	190	190	190	200	200	210	220	220	240	760	2,260
Total – payments	6,490	6,990	6,990	7,090	7,190	7,300	7,600	7,810	7,920	8,220	8,440	27,560	82,360
Total	5,090	5,590	5,490	5,590	5,690	5,800	6,000	6,210	6,220	6,520	6,640	21,860	65,160

- (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.
- (c) Figures assume that the Liberal Democratic Party’s related policy proposals would be in operation. Costings of these policies are available on the Parliamentary Budget Office website at https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Costings.
- Indicates nil.

Table A3: Government-funded paid parental leave (PPL) and child care subsidy (CCS) – Option 2: Abolish government-funded PPL and modify CSS rates and thresholds, and remove carer qualifications and child-to-carer ratio requirements, and Option 3: As per Option 2, but remove the CCS with respect to a child under 18 weeks of age – Fiscal balance (\$m)^{(a)(b)(c)}

	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
Revenue													
<i>Personal income tax</i>	-400	-400	-400	-400	-400	-500	-500	-500	-500	-500	-500	-1,700	-5,000
Total – revenue	-400	-400	-400	-400	-400	-500	-500	-500	-500	-500	-500	-1,700	-5,000
Expenses													
<i>Administered</i>													
<i>CCS changes</i>	20	30	30	30	30	30	30	40	40	40	40	100	350
<i>CCS social welfare flow-on impacts</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
Total – net impact of CCS changes	20	30	30	30	30	30	30	40	40	40	40	100	350
<i>Abolish PPL</i>	2,300	2,400	2,500	2,600	2,600	2,700	2,800	2,900	3,000	3,100	3,200	9,800	30,000
<i>PPL social welfare flow-on impacts</i>	-100	-200	-200	-300	-300	-400	-400	-500	-500	-600	-700	-800	-4,300
Total – net impact of PPL changes	2,200	2,200	2,200	2,300	2,300	2,300	2,400	2,400	2,400	2,500	2,500	8,900	25,800
Total – administered	2,220	2,230	2,230	2,330	2,330	2,330	2,430	2,440	2,440	2,540	2,540	9,000	26,150
<i>Departmental</i>													
<i>Departmental – CCS</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Departmental – PPL</i>	30	30	30	30	30	30	30	30	30	30	40	120	360
Total – departmental	30	30	30	30	30	30	30	30	30	30	40	120	360
Total – expenses	2,250	2,260	2,260	2,360	2,360	2,360	2,460	2,470	2,470	2,570	2,580	9,120	26,510
Total	1,850	1,860	1,860	1,960	1,960	1,860	1,960	1,970	1,970	2,070	2,080	7,420	21,510

(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.

(c) Figures assume that the Liberal Democratic Party’s related policy proposals would be in operation. Costings of these policies are available on the Parliamentary Budget Office website at

https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Costings.

- Indicates nil.

Table A4: Government-funded paid parental leave (PPL) and child care subsidy (CCS) – Option 2: Abolish government-funded PPL and modify CCS rates and thresholds, and remove carer qualifications and child-to-carer ratio requirements, and Option 3: As per Option 2, but remove the CCS with respect to a child under 18 weeks of age – Underlying cash balance (\$m)^{(a)(b)(c)}

	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
Receipts													
<i>Personal income tax</i>	-400	-400	-400	-400	-400	-500	-500	-500	-500	-500	-500	-1,700	-5,000
Total – receipts	-400	-400	-400	-400	-400	-500	-500	-500	-500	-500	-500	-1,700	-5,000
Payments													
<i>Administered</i>													
<i>CCS changes</i>	20	20	30	30	30	30	30	40	40	40	40	100	350
<i>CCS social welfare flow-on impacts</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
Total – net impact of CCS changes	20	20	30	30	30	30	30	40	40	40	40	100	350
<i>Abolish PPL</i>	2,300	2,400	2,500	2,600	2,600	2,700	2,800	2,900	3,000	3,100	3,200	9,800	30,000
<i>PPL social welfare flow-on impacts</i>	-100	-200	-200	-300	-300	-400	-400	-500	-500	-600	-700	-800	-4,300
Total – net impact of PPL changes	2,200	2,200	2,200	2,300	2,300	2,300	2,400	2,400	2,400	2,500	2,500	8,900	25,800
Total – administered	2,220	2,220	2,230	2,330	2,330	2,330	2,430	2,440	2,440	2,540	2,540	9,000	26,150
<i>Departmental</i>													
<i>Departmental – CCS</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Departmental – PPL</i>	30	30	30	30	30	30	30	30	30	30	40	120	360
Total – departmental	30	30	30	30	30	30	30	30	30	30	40	120	360
Total – payments	2,250	2,250	2,260	2,360	2,360	2,360	2,460	2,470	2,470	2,570	2,580	9,120	26,510
Total	1,850	1,850	1,860	1,960	1,960	1,860	1,960	1,970	1,970	2,070	2,080	7,420	21,510

- (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.
- (c) Figures assume that the Liberal Democratic Party's related policy proposals would be in operation. Costings of these policies are available on the Parliamentary Budget Office website at https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Costings.
- Indicates nil.