



**Parliament of Australia**  
**Parliamentary Budget Office**

**Phil Bowen PSM FCPA**  
**Parliamentary Budget Officer**

Senator Richard Di Natale  
Leader of the Australian Greens  
Parliament House  
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *A new assistance payment for Childcare* (letter of 28 June 2016).

The response to this request will be released on the PBO website ([www.pbo.gov.au](http://www.pbo.gov.au)).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

29 June 2016



## Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	A new assistance payment for Childcare
Summary of proposal:	<p>The proposal has three components which would make changes to the early childhood education and care system.</p> <p><u>Component 1: Bringing forward the Child Care Subsidy (CCS) system</u></p> <ul style="list-style-type: none"><li>• Bring forward the implementation of the CCS system from 1 July 2018 to 1 July 2017.</li></ul> <p><u>Component 2: Changing the CCS activity test</u></p> <ul style="list-style-type: none"><li>• Change the current activity test so that families with a parent who undertakes 0-16 hours per fortnight of approved activity would receive up to 48 hours of subsidised childcare per fortnight.</li></ul> <p><u>Component 3: ‘Reducing Waiting Lists’ grants</u></p> <ul style="list-style-type: none"><li>• Provide a capped ‘Reducing Waiting Lists’ grant of \$200 million to childcare centres to expand services and upgrade facilities.</li></ul> <p>The proposal would have effect from 1 July 2017.</p>
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	9 June 2016
Date costing request received:	28 June 2016
Date costing completed:	29 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

## Costing overview

This proposal would be expected to decrease the fiscal balance by \$2,776 million and decrease the underlying cash balance by \$2,713 million over the 2016-17 Budget forward estimates period. In fiscal balance terms, this reflects an increase in administered expenses of \$2,769 million and an increase in departmental expenses of \$7 million.

The fiscal balance implications are different to the underlying cash balance implications because some subsidies are withheld and paid to families after the end of the financial year when their tax liabilities and payment amounts are reconciled.

This proposal would have financial implications beyond the 2016-17 Budget forward estimates period.

- In 2020-21, the estimated decrease to the fiscal balance would be around \$815 million.
- In 2021-22, the estimated decrease to the fiscal balance would be around \$820 million.
- Beyond 2021-22, the annual financial implications would be consistent with the amounts in 2021-22 allowing for growth in underlying parameters.

A breakdown of the financial implications over the 2016-17 Budget forward estimates period for the entire proposal (Table A1) and by component (Tables A2-A4) is at [Attachment A](#).

The financial implications include departmental funding for the Department of Human Services (DHS) for processing payments for new CCS recipients. A separate amount of departmental funding was estimated for the Department of Education and Training (DET) to manage the proposed grants program over the 2016-17 Budget forward estimates period.

This costing is considered to be of medium to low reliability. While the costing is based on detailed administrative data on children in approved child care under the existing system, the Parliamentary Budget Office (PBO) has made assumptions about take-up of child care, and there is uncertainty regarding the flow-on costs to CCS payments due to the expansion of child care places.

**Table 1: Financial implications (outturn prices)<sup>(a)(b)</sup>**

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	-	-1,646.0	-536.0	-592.0	<b>-2,776.0</b>
Underlying cash balance	-	-1,527.0	-600.0	-585.0	<b>-2,713.0</b>

(a) A positive number represents an increase in the relevant budget balance and a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

## Key assumptions

The PBO has assumed that departmental costs for processing CCS payments for new recipients would be comparable to the unit costs for processing Child Care Benefit payments.

## Methodology

- Estimates for bringing forward the implementation of the CCS to 1 July 2017 were based on information in the Department of Finance's Central Budget Management System related to the 2016-17 Budget measure to defer the CCS to 1 July 2018.
- Child care models based on unit record administrative data were used to simulate entitlements under both the current CCS system and the proposal. The differences in estimated entitlements under the scenarios represent the financial implications of the proposal to change the current activity test.
- The \$200 million of grants were evenly distributed over the four years from 2017-18 to 2020-21.
- The number of additional children expected to access the increased services provided as a result of the proposed grants was estimated using historical information on child care attendance and the number of increased places under the *Community Child Care Fund*.<sup>1</sup>
- Total additional CCS payments were calculated by multiplying the estimated additional number of children who would be enrolled in the expanded child care services and the estimated average CCS entitlement per child.
- Administered and departmental funding has been rounded to the nearest \$1 million.

## Data sources

- 2015-16 Budget Paper No. 2.
- 2016-17 Budget Paper No. 2.
- Department of Human Services provided the unit costs for administering Child Care Benefit payments.
- Productivity Commission 2014, *Childcare and Early Childhood Learning*, Inquiry Report No. 73, Canberra.
- Department of Finance provided information from Central Budget Management System.

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<sup>1</sup> Announced at the 2015-16 Budget, the Community Child Care Fund will provide additional support to increase the supply of child care places in areas of high unmet demand.

## Attachment A: A new assistance payment for Childcare—financial implications

**Table A1: All components: A new assistance payment for Childcare—Financial implications<sup>(a)(b)</sup>**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
<b>Fiscal balance</b>					
Administered	-	-1,634.0	-540.0	-594.0	<b>-2,769.0</b>
Departmental	-	-12.0	4.0	2.0	<b>-7.0</b>
<b>Total</b>	<b>-</b>	<b>-1,646.0</b>	<b>-536.0</b>	<b>-592.0</b>	<b>-2,776.0</b>
<b>Underlying cash balance</b>					
Administered	-	-1,516.0	-603.0	-587.0	<b>-2,707.0</b>
Departmental	-	-11.0	3.0	2.0	<b>-6.0</b>
<b>Total</b>	<b>-</b>	<b>-1,527.0</b>	<b>-600.0</b>	<b>-585.0</b>	<b>-2,713.0</b>

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

**Table A2: Component 1: Bringing forward the CCS system—Financial implications<sup>(a)(b)</sup>**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
<b>Fiscal balance</b>					
Administered	-	-1,217.0	-3.0	78.0	<b>-1,142.0</b>
Departmental	-	-8.0	9.0	8.0	<b>9.0</b>
<b>Total</b>	<b>-</b>	<b>-1,225.0</b>	<b>5.0</b>	<b>86.0</b>	<b>-1,133.0</b>
<b>Underlying cash balance.</b>					
Administered	-	-1,135.0	-78.0	71.0	<b>-1,142.0</b>
Departmental	-	-7.0	9.0	8.0	<b>9.0</b>
<b>Total</b>	<b>-</b>	<b>-1,142.0</b>	<b>-70.0</b>	<b>79.0</b>	<b>-1,133.0</b>

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- Indicates nil.

**Table A3: Component 2: Changing the CCS activity test—Financial implications<sup>(a)(b)</sup>**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
<b>Fiscal balance</b>					
Administered	-	-328.0	-364.0	-407.0	<b>-1,100.0</b>
Departmental	-	-2.0	-2.0	-2.0	<b>-7.0</b>
<b>Total</b>	<b>-</b>	<b>-330.0</b>	<b>-366.0</b>	<b>-410.0</b>	<b>-1,106.0</b>
<b>Underlying cash balance</b>					
Administered	-	-295.0	-361.0	-403.0	<b>-1,059.0</b>
Departmental	-	-2.0	-2.0	-2.0	<b>-7.0</b>
<b>Total</b>	<b>-</b>	<b>-298.0</b>	<b>-363.0</b>	<b>-405.0</b>	<b>-1,066.0</b>

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- Indicates nil.

**Table A4: Component 3: 'Reducing Waitlists Fund'—Financial implications<sup>(a)(b)</sup>**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
<b>Fiscal balance</b>					
<b>Administered</b>					
<i>Capped grants</i>	-	-50.0	-50.0	-50.0	<b>-150.0</b>
<i>Flow-on to child care system</i>	-	-39.0	-123.0	-215.0	<b>-377.0</b>
<b>Total administered</b>	-	<b>-89.0</b>	<b>-173.0</b>	<b>-265.0</b>	<b>-527.0</b>
<b>Departmental</b>					
<i>Departmental - DHS</i>	-	..	-1.0	-2.0	<b>-4.0</b>
<i>Departmental – DET</i>	-	-2.0	-2.0	-2.0	<b>-5.0</b>
<b>Total departmental</b>	-	<b>-2.0</b>	<b>-2.0</b>	<b>-4.0</b>	<b>-9.0</b>
<b>Total</b>	-	<b>-91.0</b>	<b>-176.0</b>	<b>-268.0</b>	<b>-536.0</b>
<b>Underlying cash balance</b>					
<b>Administered</b>					
<i>Capped grants</i>	-	-50.0	-50.0	-50.0	<b>-150.0</b>
<i>Flow-on to child care system</i>	-	-35.0	-115.0	-206.0	<b>-355.0</b>
<b>Total administered</b>	-	<b>-85.0</b>	<b>-165.0</b>	<b>-256.0</b>	<b>-505.0</b>
<b>Departmental</b>					
<i>Departmental - DHS</i>	-	..	-1.0	-2.0	<b>-4.0</b>
<i>Departmental – DET</i>	-	-2.0	-2.0	-2.0	<b>-5.0</b>
<b>Total departmental</b>	-	<b>-2.0</b>	<b>-2.0</b>	<b>-4.0</b>	<b>-9.0</b>
<b>Total</b>	-	<b>-87.0</b>	<b>-167.0</b>	<b>-259.0</b>	<b>-514.0</b>

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(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.