



Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By: Australian Labor Party
Date Referred: 13/12/2018

Proposal No: B344
Date Published: 18/03/2019

Proposal Title: Early childhood education for three year olds – greater funding

Cluster: Education

General Government Sector Impacts

	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	4 year Total \$'000
Expenses (ex. depreciation)	-	25,000	194,000	320,000	539,000
Depreciation	-	-	-	-	-
Less: Offsets	-	-	-	-	-
Revenue	-	(18,000)	175,000	292,000	449,000
Net Operating Balance:	-	(43,000)	(19,000)	(28,000)	(90,000)

Capital Expenditure	-	-	-	-	-
Capital Offsets	-	-	-	-	-
Net Capital Expenditure:	-	-	-	-	-

Net Lending/(Borrowing):	-	(43,000)	(19,000)	(28,000)	(90,000)
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Total State Sector Impacts

Net Lending/(Borrowing):	-	(43,000)	(19,000)	(28,000)	(90,000)
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Notes and costing assumptions

The policy is to:

- Increase funding to three year olds at community pre-schools. From 1 January 2020 funding will be increased for three year olds at community pre-schools from 25% to 50% of the rate applying to four year olds
- Increase funding to three and four year olds at long day care centres. Funding will be introduced for three year olds from 1 January 2020 and increased for all children by \$250 per child from 1 January 2021 and a further \$300 per child from 1 January 2022
- Establish a discrete fund called 'Little Kids Big Futures Fund' for targeted childhood spending from 2020-21 with \$108 million in 2020-21 and \$184 million in 2021-22
- Establish a 'Specialist Early Intervention' trial program administered through the Department of Education (DoE) with \$7 million in 2020-21 and \$11 million in 2021-22
- Establish an 'Early Education Mentoring and Support' program-\$5 million in each of 2020-21 and 2021-22
- Establish an additional capital grants program called 'Critical Service Gaps - Capital Grants' with \$5 million in 2020-21 and \$10 million in 2021-22
- Increase funding for additional assessment and rating of staff within DoE with \$2 million in 2020-21 and \$2 million in 2021-22.

The cost of this policy is \$90 million over the forward estimates with expenses of \$539 million, offset by additional Commonwealth funding of \$449 million. Of the program's expenses, \$200 million will be grants to Community Pre Schools and Long Day Care Centres, with a further \$339 million for targeted grants programs, including \$292 million for the Little Kids Big Futures Fund.

Notes and costing assumptions continued:

The Department of Education (DoE) advises that detail on child numbers under each policy component is confidential information as DoE does not have permission from child care services or the Commonwealth Government to share child number data with any external agency.

NET OPERATING BALANCE - SUMMARY	2018-19	2019-20	2020-21	2021-22	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000
Community pre schools - change in per capita rates		5,000	9,000	5,000	19,000
Long day care centres - change in per capita rates		20,000	58,000	103,000	181,000
Little Kids Big Futures Fund			108,000	184,000	292,000
Specialist Early Intervention trial			7,000	11,000	18,000
Early Education Mentoring and Support			5,000	5,000	10,000
Critical Service Gaps - capital grants			5,000	10,000	15,000
Assessment and rating of early childhood staff by DoE			2,000	2,000	4,000
EXPENSES - variation to forward estimates		25,000	194,000	320,000	539,000
Commonwealth funding specified by policy		42,000	175,000	292,000	509,000
Commonwealth funding - Included in forward estimates		60,000	0	0	60,000
COMMONWEALTH FUNDING - variation to forward estimates		-18,000	175,000	292,000	449,000
NET OPERATING BALANCE		43,000	19,000	28,000	90,000

In this policy, the payments for children in a Community Pre-school (CPS) or Long Day Care (LDC) are a function of enrolments and per capita rates. Per capita rates are influenced by:

- The age of the child: In the CPS setting, the older the child the higher the payment, while in the LDC setting a rate is introduced for three year olds in 2020 and then increased for three, four and five year olds in 2021.
- CPS or LDC setting: under current policy, children are entitled to a higher payment in the CPS setting than in the LDC setting.

Commonwealth funding

The policy states that a future Commonwealth Government would provide \$509 million over the forward estimates to support the delivery of the policy. The funding would be contingent on state funding and vice versa.

The PBO notes that the current funding agreement with the Commonwealth Government (National Partnership on Universal Access to Early Childhood Education) expires on 30 June 2020. An amount of \$60 million is included in the forward estimates for 2019-20. As the agreement is expiring, there is no funding in the forward estimates beyond 2019-20.

The net impact of the policy's specified Commonwealth funding is \$449 million over the forward estimates.

Community pre-schools - Increased rate for three year olds

This element of the proposal has two key cost components resulting from the increased payment rate to three year olds:

- Additional cost for existing three year old enrolments from 2020 funded at the new rate. The new rate in 2020 for three year olds is \$3,193 (an increase of \$1,277).
- Increased demand by three year olds because of the increased payment from 2020, which then contributes to additional payments at the four year old rate from 2021.

Notes and costing assumptions continued:

- The following table shows the change in calendar year rates payable per child relative to current policy (including escalation of 2.3 per cent per annum).

	2020	2021	2022
Community pre schools	\$	\$	\$
Current policy - three year olds	1,916	2,614	3,345
Proposed policy - three year olds	3,193	3,268	3,345
Rate increase to 50% of the 4YO rate	1,277	654	-

In preparing the costing, DOE has assumed that:

- The rate paid to four year olds is \$6,386 in 2020 and indexed by 2.3% annually.
- Current policy is that non-equity three year olds are funded at 30 per cent in 2020, 40 per cent in 2021 and 50 per cent in 2022 of the four old rate. The cost from 2019-20 reflects the bringing forward of the 50 per cent funding rate to 2020 rather than 2022.
- An increase in the rate payable to three year olds will lead to an increase in enrolments in 2020 of around 4 per cent (in addition to normal three year old enrolment growth of around 6 per cent). This contributes to an increase in four year old enrolments in 2021 of around 3 per cent. By 2023 enrolment growth is expected to moderate to 3 per cent for three year olds and no growth for four year olds.
- Funding for equity three year olds is unchanged at 100 per cent of the four year old rate.
- There is sufficient capacity in CPSs to absorb increased enrolments, without displacing children in the year before school.
- Support costs are about 1 per cent of additional funding to CPSs to cover the costs of administering the expanded program.

Estimated expenses over the forward estimates in the CPS setting are outlined below:

	2018-19	2019-20	2020-21	2021-22	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000
Community pre schools					
3 year olds - new enrolments at new rate		477	687	136	1,299
3 year olds - existing enrolments at marginal rate		4,474	6,889	2,660	14,024
4 year olds - mainly flow on from new 3 year olds		0	1,335	2,159	3,494
Support costs		49	89	45	183
TOTAL		5,000	9,000	5,000	19,000

Long day care centres - Introduction of rate for three year olds and increased rate for all children from 1 January 2021

This element of the proposal has two cost components from increasing funding to three, four and five year olds:

- Introduction of a rate for three year olds from 1 January 2020 (\$540) which were previously not funded
- Increased rate for all LDC children by \$250 (to \$802) per child from 1 January 2021, and a further \$300 (to \$1,121) per child from 1 January 2022.

The following table shows the change in calendar year rates payable per child relative to current policy (including escalation of 2.3 per cent). The rates reflect:

	2020	2021	2022
Long day care centres	\$	\$	\$
Current policy - three year olds	0	0	0
New policy - three year olds	540	802	1,121
Rate increase - three year olds	540	802	1,121
Current policy - four and five year olds:	540	552	565
New policy - four and five year olds	540	802	1,121
Rate increase - four and five year olds	0	250	556

Notes and costing assumptions continued:

In preparing the costing, DoE has assumed that:

- For modelling purposes, the LDC per capita rate is an average rate for equity and non-equity children. The rate is based on the current child profile, which is generally relatively stable over time. An equity enrolment is an Aboriginal child or a child from a disadvantaged background. All other children are non-equity enrolments.
- The policy also applies to five year olds who are still in the LDC setting in the year before school.
- Existing Commonwealth funding under the Universal Access National Partnership continues in line with the Partnership Agreement.
- The population of three year olds is about the same size as the population of four and five year olds.
- Support costs are about 1 per cent of additional funding to LDCs to cover the costs of administering the expanded program.

Estimated expenses in the LDC setting are outlined below:

	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	TOTAL \$'000
Long day care centres					
3 year olds - newly funded at new rate		19,811	48,328	71,986	140,126
4 and 5 year olds - existing enrolments at marginal rate		0	9,097	29,990	39,087
Support costs		189	574	1,024	1,787
TOTAL		20,000	58,000	103,000	181,000

Program funding

The policy states that \$339 million will be spent over the forward estimates on the following programs:

	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	TOTAL \$'000
Specific funding programs					
Little Kids Big Futures Fund			108,000	184,000	292,000
Specialist Early Intervention trial			7,000	11,000	18,000
Early Education Mentoring and Support			5,000	5,000	10,000
Capital grants - additional			5,000	10,000	15,000
Assessment and rating of early childhood staff by DoE			2,000	2,000	4,000
TOTAL	0	0	127,000	212,000	339,000

The policy does not provide any detail on the objectives or intended outcomes of each program component. However, the PBO notes there is unmet demand across the early childhood sector, with the Little Kids Big Futures Fund and additional capital grants program potentially supporting a reduction in unmet demand.

The PBO assumes that any capacity constraints that might result from the additional funding can be met from the funds available.