

Regulatory Impact Statement:

Childcare Assistance – Extension of Grandparenting Expiry Date

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Social Development. I have reviewed the attached RIS and consider the information and analysis meets the quality assurance criteria.

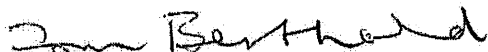
It provides an analysis of options to address a number of factors which have emerged since Cabinet originally decided that grandparenting of Childcare Assistance would expire on 27 September 2013.

The options were developed and assessed assuming fiscal constraint has particular importance.

The RIS provides the required level of analysis, in particular, including the relevant background, problem definition, impact analysis and other options considered to address the problem.

To effect the proposal, changes need to be made to the Social Security (Childcare Assistance) Regulations 2004.

A final Cabinet decision on this matter is required by 2 September 2013. This deadline requires the necessary policy, funding and legislative decisions to be made in consecutive weeks.



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Status quo and problem definition

Background

1. CCA reduces the costs of early childhood education and out of school care to make it more affordable¹. CCA is paid direct to the childcare providers on behalf of eligible families. There are three rates of CCA: \$3.93, \$2.74 and \$1.52 per hour, depending on family income and the number of dependent children in the household².
2. As part of the funding package for the 2010 Future Focus reforms (which created improved work incentives through more generous abatement of income), CCA income thresholds were reduced back to their 1 April 2008 levels effective from 27 September 2010. In addition, the inflation adjustment to CCA income thresholds was removed [CAB Min (10) 7/8 refers]. Resultant savings from these CCA changes were estimated to be \$26.3 million per annum by 2013/14.
3. Cabinet agreed to grandparent families who had received CCA at any time in the year immediately prior to 27 September 2010, for a period of three years, using the then more generous income thresholds, as outlined in Table 1 below. At this time, around 11,000 families were expected to be impacted by the expiry of grandparenting.

Table 1: Highest* annual income thresholds for which CCA is payable

Number of children	Grandparented	Non-grandparented
One	\$77,272	\$72,800
Two	\$88,296	\$83,200
Three or more	\$99,320	\$93,600

*for simplicity, only the income limit at which people are no longer eligible for CCA is shown in this table

Effect of expiry of grandparenting

4. Most families' rate of CCA is unaltered by grandparenting. For example, all families whose income is less than \$62,400 per annum receive the highest rate of subsidy irrespective of whether or not they are being grandparented. The Ministry of Social Development (the Ministry) estimates that around 1,860 families will be impacted following the scheduled expiry of grandparenting on 27 September 2013. These families have incomes between \$62,400 and \$99,320 per annum.
5. The loss of the grandparented threshold will reduce affected families' net weekly position on average by around \$45 per week but some by more than \$200 per week³. For example, a family earning \$95,000 per annum, with three children each receiving 50 hours per week OSCAR subsidy during the school holidays would lose entitlement to the lowest rate of subsidy (\$1.52/hour) once grandparenting expires. This would

¹ CCA includes both Childcare and Out of School Care and Recreation (OSCAR) subsidies.

² For example, the applicable rate of CCA is \$3.93 per hour for principle caregivers with one dependent child and with a household income of less than \$62,400 per annum.

³ Size of loss is dependent on family income, number of dependent children and number of childcare hours claimed.

result in increased OSCAR costs of \$228 per week for this family. Table 2 below shows the expected⁴ distribution of weekly loss for affected families.

Table 2: Breakdown of affected families expected weekly loss

\$/week loss	Number	Percentage
\$0 ⁺ -\$40	1094	59
\$40 ⁺ -\$80	526	28
\$80 ⁺ -\$120	160	9
\$120 ⁺ -\$160	44	2
\$160 ⁺ -\$200	26	1
\$200 ⁺	9	1
Total	1859	100%

Factors unforeseen at the time of the 2010 decision

6. Since the 2010 Cabinet decision, a number of unforeseen factors have emerged that make the scheduled expiry date problematic.

Scheduled expiry when OSCAR highest

7. The scheduled expiry of grandparenting takes place at the start of the school holidays when reliance on OSCAR subsidies is potentially highest (up to 50 hours per week available during school holidays). One-third of affected families are receiving OSCAR subsidies.

OSCAR providers already affected by revised OSCAR grant system

8. As well as impacting grandparented clients, the expiry of grandparenting is also likely to impact childcare providers as CCA is paid directly to them. Some OSCAR providers have already had funding reduced from 1 July 2013 as a result of the new OSCAR Grant system (although transitional funding was provided, this does not fully compensate for funding reductions).

ECE Better Public Service Targets

9. The Government has set Better Service Targets for Early Childcare Education (ECE) including that 98% of children starting school are to have participated in quality ECE by 2016. The expiry of grandparenting on 27 September 2013 is estimated to affect around 1,200 families using ECE. This may have some adverse impact on ECE participation.

Objectives

10. The options have been assessed against how effectively the option addresses the issues outlined above (paragraph 7-9 refer), as well as against normal policy criteria of:
 - Practicality
 - Fiscal cost

⁴ Based on families' current income and dependent children data, however some data may be outdated.

- Equity.

Options and impact analysis

11. To address the issues outlined in paragraph 7-9 above, the following options are considered:

- Option 1: Status quo
- Option 2: Extend grandparenting out until start of next year's school term
- Option 3: Extend grandparenting out indefinitely
- Option 4: Extend grandparenting out for specific subgroup/s only

Option 1: Allow grandparenting to expire as scheduled on 27 September 2013

12. This option does not address any of the factors outlined in paragraph 7-9.

Option 2: Extend grandparenting out until start of next year's school term

13. Under this option current grandparenting arrangements would be extended to the start of the next school year - until the close of Friday 7 February 2014⁵.

14. The proposed extension would:

- lessen the immediate potential impact on OSCAR recipients (given that it would move expiry from a holiday period to the school term)
- lessen the likelihood of the public associating the expiry with Welfare Reforms (7 February is six months after the implementation of the last stage of Welfare Reforms)
- give affected families longer notice of when grandparenting will end, so that they can better adjust to the increase in their childcare costs
- reduce the potential number of families affected (from 1860 families to an estimated 1,500 families), as well as flow-on impacts to OSCAR providers and ECE participation. Extending grandparenting reduces the expected number of affected families by around 40% each year (because of aging out)
- be relatively easy to implement
- have minimal fiscal cost (less than \$1 million in total)
- extend the current unequal treatment provided by grandparenting out by 4 more months.

⁵ The start of the 2014 school year must be between 27 January (at the earliest) and 7 February (at the latest).

Option 3: Extend grandparenting out indefinitely

15. Under this option current grandparenting arrangements would be extended out indefinitely (ie, until all families being grandparented no longer had dependent children).
16. The proposed extension would:
 - remove any impact on OSCAR recipients - given that grandparenting would no longer expire
 - remove any likelihood of the public associating the expiry with Welfare Reforms - given that grandparenting would no longer expire
 - no longer require the Ministry of Social Development to give affected families' reasonable notice of when grandparenting will end - given that grandparenting would no longer expire
 - remove the potential number of families affected - given that grandparenting would no longer expire; as well as removing flow-on impacts to OSCAR providers and ECE participation
 - be relatively easy to implement, but unit administrative costs would grow increasingly over time as grandparented population aged out. Further, having a grandparenting provision assisting limited numbers only creates administrative complexity for minimal gain
 - have a fiscal cost of around \$6.5 million (exponentially fading out over time)
 - extend the current unequal treatment provided by grandparenting out indefinitely.

Option 4: Extend grandparenting out for subgroup/s only

17. Under this option current grandparenting arrangements would be extended out for specified sub groups only (for example, the most disadvantaged).
18. This option was taken out of consideration early on because it was not possible to programme the necessary IT changes to extend grandparenting out only for specific sub-group/s, given that less than two months remained until grandparenting was scheduled to expire.

Consultation

19. The Treasury and the Ministry of Education were consulted and their views incorporated into the accompanying SOC paper. In addition, the Department of the Prime Minister and Cabinet was informed.
20. Only limited consultation was possible because a final decision on this matter is required by 2 September 2013. This necessitated tight deadlines including consideration of Cabinet papers by SOC and LEG in consecutive weeks.

Conclusions and recommendations

21. The option recommended (option 2) addresses the issues relatively effectively, while minimising fiscal cost and minimising continued unequal treatment provided through grandparenting.

Implementation plan

22. The Ministry will work with the Minister's Office to develop a communication plan to inform all families affected by the ending of grandparenting, including advising them that the Government has extended grandparenting until the start of the next school year.

Monitoring, evaluation and review

23. There are no plans for monitoring and evaluating the effectiveness of the preferred option, given that the proposal is simply a 4 months' extension to existing grandparenting provisions.