

Regulatory Impact Statement:

Childcare Assistance – Further Extension of Grandparenting Arrangements

Agency Disclosure Statement

This Regulatory Impact Statement (RIS) has been prepared by the Ministry of Social Development (MSD).

This RIS analyses options to address issues associated with the scheduled expiry of grandparented childcare assistance income thresholds on 7 February 2014.

MSD considered a number of options, taking into account the policy objectives and fiscal constraints, and recommended the preferred option be implemented by 7 February 2014.

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

To give effect to the preferred option, an amendment is required to the Social Security (Childcare Assistance) Regulations 2004.

I have reviewed the attached RIS and consider the information and analysis to meet the quality assurance criteria.

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Status quo and problem definition

Background

1. Childcare Assistance (CCA) reduces the costs of early childhood education and out of school care for families, in order to make it more affordable.¹ Payment rates of CCA vary depending on family income and the number of dependent children,² and CCA is paid directly to childcare providers on behalf of eligible families.
2. As part of the funding package for the 2010 Future Focus welfare reforms (which created improved work incentives through more generous abatement of income), the CCA income thresholds were reduced back to their 1 April 2008 levels from 27 September 2010 [CAB Min (10) 7/8 refers].
3. To prevent an abrupt decrease in the CCA available to existing recipients, and to allow affected families a period to adjust to the new income thresholds, families who had been receiving CCA on or in the 12 months prior to 27 September 2010 had their existing income thresholds grandparented at the 1 April 2010 levels until 27 September 2013.
4. This period of grandparenting was subsequently extended until 7 February 2014 to manage issues associated with the impact of the 27 September 2013 expiry on affected families [CAB Min (13) 29/6 refers].

Problem

Inadequate time for grandparented families to adjust to new income thresholds

5. The primary reason for grandparenting CCA for existing recipients was to provide affected families with time to adjust to the new income thresholds, and enable them to make different arrangements where necessary.
6. Because the Ministry of Social Development did not immediately inform affected clients when Cabinet agreed to the extension, there is now insufficient time for clients to adjust to the changes.

New children were not intended to be covered by grandparenting

7. In addition, the grandparenting arrangements have been applied to a wider group of children than was originally intended:
 - grandparenting was intended to apply in relation to children for whom CCA was being received prior to September 2010, but not to children in those families for whom CCA was first received after September 2010;
 - instead, grandparented income threshold arrangements have been applied to all children in families who were receiving CCA for any child prior to September 2010. This means that children who have been born into these families at a later date have been included in grandparenting arrangements that had not been intended for them.

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

² There are three hourly rates of CCA: \$3.93; \$2.74; and \$1.52 per eligible child.

8. Families who have received grandparented rates in respect of additional children due to this error, now face similar adjustment issues as for the children to which grandparenting arrangements were originally intended to apply. However, if there is an extension of grandparenting arrangements beyond 7 February 2014, this error should not be repeated, and grandparenting should not be available to families in respect of children who were not included in grandparenting arrangements on or prior to 7 February 2014 (referred to in this paper as “new children”).

Objectives

9. The policy objectives are to:
 - **Objective One** – in the interests of fairness, provide grandparented families with adequate time to transition from the current grandparented CCA income thresholds to the new CCA income thresholds.
 - **Objective Two** – prevent any new children in grandparented families being included under grandparenting arrangements if CCA is accessed for them in the future
 - **Objective Three** – balance objectives one above with the need to act with fiscal prudence.
10. Each alternative option has been assessed against these objectives.

Options and impact analysis

11. Grandparenting of CCA thresholds is currently due to expire on 7 February 2014. We have investigated a number of options, including the status quo of allowing grandparenting provisions to expire on 7 February 2014. Six options were assessed against the three policy objectives set out above.
 - Option 1 – Status quo (grandparented provisions expire 7 February 2014);
 - Option 2 – Extend arrangements for all grandparented families indefinitely;
 - Option 3 – Extend arrangements for grandparented families indefinitely, but exclude new children from grandparenting arrangements;
 - Option 4 – Extend arrangements for all children of grandparented families until February 2015;
 - Option 5 – Extend arrangements for grandparented families until February 2015, but exclude new children from grandparenting arrangements;
 - Option 6 – Extend grandparenting arrangements for targeted groups only.

Option 1: Status quo (grandparented provisions expire 7 February 2014)

12. This option retains the current status quo - that grandparented income thresholds expire on 7 February 2014.
13. This option does not meet Objective One, as there is now insufficient time to inform affected families of the end of the grandparenting arrangements before they expire in early February. As families are also unaware they are under grandparented income

thresholds, this could create difficulties for those who will need to adjust to lower rates of assistance.

14. This option is consistent with Objectives Two and Three, as no new children would come under the grandparenting arrangements, and no extra funding would be required for this option.

Option 2: Extend arrangements for all grandparented families indefinitely

15. This option involves extending grandparenting arrangements for CCA indefinitely for all children of grandparented families. Eventually grandparenting would end as children “age out” of being eligible for CCA assistance.
16. This option would not require affected families to adjust to the new income thresholds, as the grandparented thresholds would apply until all children have aged out. However, this approach does not align with Objective One, which aims to provide families with adequate time to transition, rather than remove the need to transition completely.
17. In addition, this option is the least consistent with Objectives Two and Three. It would include all new children within the grandparenting arrangements, and would cost the most – it is estimated that it would cost around \$6.2 million in total to extend grandparented income thresholds until 2019, and the grandparenting arrangements may still remain for some families after this date. It also does not give effect to the original policy intent, which was to transition all families to the new income thresholds after allowing for a period for adjustment.

Option 3: Extend arrangements for grandparented families indefinitely, but exclude new children from grandparenting arrangements

18. This option is similar to Option 2, but would not include new children in the grandparenting arrangements.
19. The analysis is similar to that for Option 2, but unlike Option 2 it is consistent with Objective Two.

Option 4: Extend arrangements for all children of grandparented families until February 2015

20. This option involves extending current grandparenting arrangements until February 2015, and implementing a communications strategy to inform all affected families from March 2014 of the upcoming end to grandparented arrangements
21. This option would meet Objective One, as it provides adequate time to inform affected families of the expiry of the grandparented income thresholds and for them to make any adjustments necessary in response. This moderate extension would also be fiscally prudent, consistent with Objective Three. It is estimated that this option would cost approximately \$2.2 million.
22. However, this option does not meet Objective Two, as it does not restrict the grandparenting arrangements so that they do not apply to new children.

Option 5: Extend arrangements for grandparented families until February 2015, but exclude new children from grandparenting arrangements (preferred)

23. This option is similar to Option 4, but would not extend grandparenting arrangements to new children.

24. This option meets Objective One, as it would give adequate time to make grandparented families fully aware of the expiry of grandparenting, giving them time to transition and adjust to changes in their childcare costs.
25. It also meets Objective Two, as new children would be excluded from grandparenting arrangements. As such, the income thresholds that were put in place from 27 September 2010 will apply to CCA assistance in respect of any new children in grandparented families.
26. Furthermore, this option best meets Objective Three as it limits the expenditure of the extension to only existing children under the grandparented income thresholds. It is estimated that this option would cost \$2 million.

Option 6: Extend grandparenting for targeted groups only

27. This option involves extending grandparenting arrangements, but only for targeted groups that are identified as being most at risk of adverse outcomes if grandparenting is not extended.
28. If implemented, this option would partially meet Objective Three, as it would reduce the amount spent on grandparenting by targeting smaller population sub-groups. However, it would have large IT and associated costs, and identification of sub-groups and the establishment of specific payment systems for those groups could not take place before the expiry of the grandparenting arrangements.
29. In addition, this option does not meet Objective One given that current grandparenting arrangements are set to expire imminently and affected families not within the 'at-risk' sub-groups would not have time to adjust to their new circumstances.

Consultation

30. MSD consulted the Ministry of Education and The Treasury on the Cabinet paper and RIS and they have no comment. The Department of Prime Minister and Cabinet was informed.

Conclusions and recommendations

31. MSD analysed each of the options set out above against the policy objectives. There is an imperative to end grandparenting provisions, as this gives effect to the original policy intent and ensures fairness and consistency with those families who are not included in the grandparenting arrangements. However, a further extension of the temporary grandparenting provisions is required, in order to provide affected families with adequate time to adjust to changes in their childcare costs – the rationale behind the original decision to grandparent existing recipients.
32. On the basis of the analysis above, MSD recommended Option 5: Extend arrangements for grandparented families until 8 February 2015, but exclude new children from grandparenting arrangements. Overall, MSD's analysis indicated that this option best meets the policy objectives identified above.
33. After 8 February 2015, all grandparenting of CCA income thresholds will cease, and income thresholds will align with those put in place following the Future Focus changes of 27 September 2010.

Implementation plan

34. A communications strategy is outlined in the Cabinet paper, and will be implemented from March 2014. This will ensure that all grandparented families are fully aware of the upcoming changes to income thresholds, and have an appropriate period of time in which to make any adjustments necessary, including accessing alternative assistance that may be available, if necessary.
35. The costs associated with Option 5, if chosen, will be met from within MSD baselines.
36. Subject to Cabinet approval, regulations giving effect to the preferred option will be gazetted on 7 February 2014 and come into effect on 8 February 2014.

Monitoring, evaluation and review

37. There are no plans to monitor or evaluate the preferred option, given that the proposal is an extension to existing grandparenting provisions and will cease within a year.