

Senate Community Affairs Committee
ANSWERS TO ESTIMATES QUESTIONS ON NOTICE
Social Services Portfolio
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Outcome Number: 2

Question No: 628

Topic: Paid Parental Leave

Hansard Page: Written

Senator Brown asked:

How does the cost of the current PPL scheme compare with that of the Government's proposed scheme?

Answer:

Page 51 of the *Portfolio Additional Estimates Statements 2013-14, Social Services Portfolio*, shows the costs of the current Paid Parental Leave Scheme, as detailed in the table below.

	2012-13 Actual \$'000	2013-14 Budget \$'000	2014-15 Forward year 1 \$'000	2015-16 Forward year 2 \$'000	2016-17 Forward year 3 \$'000
<i>Paid Parental Leave Act 2010</i>	1,419,657	1,657,937	1,874,933	1,952,461	2,039,069

The pre-election costing of the Coalition's proposed Paid Parental Leave scheme can be found in the Parliamentary Budget Office's *2013 Post-Election report*, pages 146 to 158 (reference COA017). This costing has been reproduced below, although it should be noted that the Prime Minister, in April 2014, announced that the income ceiling would be reduced from \$150,000 to \$100,000. Final costs are still being determined based on final policy detail.

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Parliament of Australia
 Parliamentary Budget Office

COSTING – POST ELECTION REPORT

Name of proposal costed:	Coalition's Paid Parental Leave Scheme
Summary of proposal:	<p>The proposal will:</p> <ul style="list-style-type: none"> • provide a Paid Parental Leave (PPL) scheme with 26 weeks paid at the higher of a replacement wage (up to a cap of \$150,000 per annum) or the National Minimum Wage, plus superannuation. Partners will also be able to take two out of the 26 weeks at their own replacement wage (up to the \$150,000 per annum cap), plus superannuation • replace the existing PPL scheme, and • also replace the existing paid maternity leave schemes for Commonwealth agencies. Payments to the States would be reduced by the value of maternity payments that would otherwise have been expected to be made by the States. <p>The payments in the new scheme will be made entirely through the Department of Human Services.</p> <p>The proposal will have effect from 1 July 2015.</p> <p>The proposed levy of 1.5 per cent on company taxable income above \$5 million is considered separately.</p>
Party:	Coalition
Date of public release of policy:	18 August 2013 and 5 September 2013
Agencies from which information was obtained:	<ul style="list-style-type: none"> • The former Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), and • Department of Human Services (DHS).

Costing overview

The gross cost of the new PPL scheme is expected to decrease both the underlying cash and fiscal balances by around \$9.87 billion over the 2013-14 Budget forward estimates period.

Not proceeding with the former Government's PPL scheme is expected to increase both the underlying cash and fiscal balances by around \$3.67 billion over the 2013-14 Budget forward estimates period.

Discontinuing the existing Commonwealth, State and Territory Governments' maternity leave schemes is expected to increase both the underlying cash and fiscal balances by around \$1.38 billion over the 2013-14 Budget forward estimates period.

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Additionally, the impact of the proposal on existing Government payments and taxes is expected to increase the underlying cash balance by around \$1.33 billion and the fiscal balance by \$1.36 billion over the 2013-14 Budget forward estimates period.

The net impact of the scheme is expected to be a decrease in the underlying cash balance of around \$3.50 billion and a decrease in the fiscal balance of around \$3.47 billion over the 2013-14 Budget forward estimates period.

A finer disaggregation of the costing can be found at [Attachment A](#).

This proposal will have an ongoing impact that extends beyond the forward estimates period.

The costing includes a decrease in departmental expenses of \$155 million over the 2013-14 Budget forward estimates period. This reflects a decrease of \$185 million from no longer needing to cover maternity payments for Commonwealth public servants, partially offset by an increase in expenses of \$30 million to cover the costs of an information campaign and provide resourcing for the Department of Human Services to implement and administer the new scheme.

The proposed PPL scheme would result in increased expenses for the PPL program, primarily reflecting the higher level of payments under the scheme, but also because more families will choose to receive PPL in preference to the alternative Family Tax Benefit (FTB) supplement. This increased expense will be partially offset by a reduction in payments of FTB Parts A and B.

To reflect the change in incidence of parental leave payments to State and Territory public servants to the Australian Government, the Australian Government will reduce payments to the States and Territories by the value of maternity payments that would otherwise have been expected to be made by the State and Territory Governments.

As PPL payments are taxable, the increased expense of the scheme will also be partially offset by increased personal income tax revenue. Contributions tax will also be collected on the superannuation payments made under the scheme. The inclusion of superannuation in the PPL scheme will also result in increased expenses due to additional Low Income Superannuation Contribution (LISC) payments made in respect to these contributions.

The underlying cash balance impact of this proposal differs from the fiscal balance impact due to Family Tax Benefit supplements and lump sum payments, along with LISC payments, being made in the year following the accrual of the liability.

The estimates in this costing differ from those published by the party. The PBO has revised its previous estimates to the party of the incomes of secondary carers. This impacts the degree to which families take up the optional secondary carer component of the scheme. This costing also uses a different assumption from the party's costing to derive the estimated future utilisation of the existing public service paid maternity leave schemes under current policy.

This costing is of low to medium reliability. It is sensitive to a number of assumptions around fertility rates of working women, female labour force participation, the wages parents earn and the leave patterns of parents around the births of their children.

The cost of this proposal is lower in the first year as some recipients of the payment who have their child in 2014-15 will not receive their entire 26 weeks in this financial year. The estimated saving from the current PPL scheme in 2015-16 is less than the current expense estimate for the program in that year, reflecting the fact that some families who have a child in 2014-15 will be completing the PPL period under the old scheme in 2015-16.

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Table 1: Financial implications – Gross cost of the Coalition PPL (outturn prices)^(a)

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-	-10	-4,175	-5,685
Fiscal balance (\$m)	-	-10	-4,175	-5,685

Table 2: Financial implications – Existing Government scheme (outturn prices)^(a)

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-	-	1,670	2,000
Fiscal balance (\$m)	-	-	1,670	2,000

Table 3: Financial implications – Savings from existing Commonwealth and State Public Sector schemes (outturn prices)^(a)

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-	-	625	750
Fiscal balance (\$m)	-	-	625	750

Table 4: Financial implications – Automatic adjustments to Government spending and revenue (outturn prices)^(a)

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-	-	540	790
Fiscal balance (\$m)	-	-	560	800

Table 5: Financial implications – All elements (outturn prices)^(a)

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-	-10	-1,340	-2,145
Fiscal balance (\$m)	-	-10	-1,320	-2,135

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in expenses in cash terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in expenses in cash terms

Key assumptions

General assumptions

- The policy specification used in this costing is based on the document *The Coalition's Policy for Paid Parental Leave*.

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- The grouped data approach used to model the policy cannot capture the full level of diversity in the population. The model works under the assumption that the outcome for an average person in each group represents the average outcome for the group.
- After a transitional period, the transaction costs currently incurred making PPL payments via employers are assumed to be equivalent to those incurred under the proposal when making PPL payments directly.
- No adjustment has been made to reflect any changes in fertility rates due to the proposal.

Income distribution of PPL recipients

- The income distribution of new mothers has been based on aggregated data on the distribution of adjusted taxable incomes of PPL recipients in the first eleven months of 2012-13.
 - While the rate of PPL will be based on the mother's salary, adjusted taxable income was used due to an absence of detailed data on the salaries of new mothers.
 - An analysis of the personal income tax returns from 2010-11 found that for women with wages and salary, aged 20-35, adjusted taxable income is, on average, slightly higher than wages and salary. For individuals where this is not the case, the difference is due to relatively small work related tax deductions. Similar results were found if a higher upper age range was used.
- These incomes have been grown in line with average weekly earnings.
- An assumption has been made about the proportion of eligible families that have partnered parents as well the average incomes of the partners. These assumptions have been made based on analysis of unit record data from the 2009-10 Survey of Income and Housing.
- Assumptions have also been made regarding the amount of time primary carers spend working outside the PPL period during the financial year of birth.

Take up of secondary carer payment

- Not all secondary carers currently take up Dad and Partner Pay. Under the proposed scheme all secondary carers are assumed to take up the payment as, for the greater majority, there would be no loss in income from choosing to do so. When paid paternity leave is not paid, the secondary carer is expected to continue to work. Thus, the income from the more generous paid paternity leave payment is not expected to result in a significant increase in personal income tax collections or decrease in family payments.

Child care assistance

- The effect of the proposal on child care assistance payments is expected to be minimal and has not been included in the costing.

Transitional arrangements

- It has also been assumed that those who have a child in 2014-15, but do not complete their PPL period by the end of the financial year, will continue to receive their payments under the current scheme until their 18 week period expires.

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Public service offsets

- For Commonwealth public servants payment rates for salaries have been based on median salaries at each payment level. For State and Territory public servants, payment rates have been based on median salaries of the respective State and Territory public services.
- The number of State and Territory public servants taking maternity leave with salaries above \$150,000 is negligible.
- For Commonwealth, State and Territory public servants, the proportion of female employees aged between 20 and 44 who would be accessing their paid maternity leave entitlement in each year has been estimated based on the Australian Public Service Commission's (APSC) submission to the Productivity Commission enquiry into PPL and historical trends in fertility rates.
- The income distribution of public service maternity leave recipients in the base data is assumed to be representative of the population across the forward estimates. Growth in incomes and take up rate of maternity leave has been based on recent trends.

Methodology

A grouped data model has been used to cost the proposal, based on administrative data from the existing PPL program.

The midpoint income of each of the categories in the aggregated data has been assumed to be representative of the average income of parents in each group. These incomes have been inflated to the years in 2013-14 Budget estimates period using average weekly earnings. Based on these uprated incomes, entitlement to PPL (including Dad and Partner Pay under the current scheme, and paternity pay in the new scheme) are estimated for both the current and new schemes.

Based on this, adjusted taxable incomes have been estimated for the families and used to estimate entitlement to FTB payments along with income tax liability.

The superannuation contributions tax revenue estimate is 15 per cent of the estimated superannuation payments made under the scheme. For those with an estimated adjusted taxable income below the threshold this contributions tax would be refunded through the LISC.

Estimates of the number of Commonwealth public servants who are entitled to the existing Government maternity leave, their salaries and the amount of leave to which they are entitled, have been made based on the Australian Public Service employment database, the APSC State of the Service Report and enterprise agreements of Commonwealth agencies. Estimates of salaries for State and Territory public service employees are based on State of the Service (or equivalent) reports from State and Territory public service commissions (or equivalent bodies). Expected maternity leave payments are then estimated using the take up rate assumption.

Timing effects have then been applied to recognise that PPL payments carry over into the subsequent financial year for recipients with children born towards the end of the year.

Estimates for revenue and administered expense components of the costing have been rounded to the nearest \$10 million, departmental expenses have been rounded to the nearest \$5 million and these estimates have then been summed to give the total impact.

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Data sources

- Australian Bureau of Statistics Catalogue number 4913.0, *Pregnancy and Employment Transitions*, November 2011
- Australian Bureau of Statistics, 2009-10 Survey of Income and Housing, Confidentialised Unit Record File.
- Aggregate data on the incomes of PPL and Baby Bonus recipients in the first eleven months of 2012-13 and forward estimates of expenses and recipient numbers for both Parental Leave Pay and Dad and Partner Pay have been provided by FaHCSIA.
- Data on entitlement and take up of paid maternity leave by public service employees have been taken from:
 - Productivity Commission, 2009, *Paid Parental Leave: Support for Parents with Newborn Children*
 - Australian Public Service Commission, *Australian Public Service employment database*
 - Public Service Commission of NSW, *Workforce Profile Report 2012*
 - State Services Authority of Victoria, *The State of the Public Sector in Victoria 2011-12*
 - Public Service Commission of Queensland, *Queensland Public Service Workforce Characteristics 2011-2012*
 - Public Sector Commission of Western Australia, *State of the Sector Report 2012*
 - Office of Public Employment and Review of South Australia, *State of the Sector Report 2012*
 - Office of the State Service Commissioner of Tasmania, *2011-2012 State Service Commissioner's Annual Report*
 - Office of the Commissioner for Public Administration of the Australian Capital Territory, *2010-11 ACTPS Workforce Profile 2010-11*, and
 - Office of the Commissioner for Public Employment of the Northern Territory, *State of the Service Report 2011-12*.
- The DHS have provided estimates of the departmental expenses that would be associated with implementing and administering a replacement wage PPL scheme.

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ATTACHMENT A: DISAGGREGATION OF COSTING

Table A1 provides estimates on an underlying cash balance basis. A positive number for payments represents an increase in cash paid by the Commonwealth, while a positive number for receipts represents an increase in cash collected by the Commonwealth. The impact on the underlying cash balance is the change in receipts less the change in payments.

Table A1. Disaggregation of costing – Underlying cash basis

(\$m)	2014-15	2015-16	2016-17	Total
<i>Payments</i>				
Paid Parental Leave	-	2,490	3,680	6,170
<i>Consisting of:</i>				
<i>New Primary Carer Scheme (including SG)</i>	-	3,880	5,400	9,280
<i>Existing Parental Leave Pay</i>	-	-1,390	-1,920	-3,510
<i>New Secondary Carer Scheme (including SG)</i>	-	280	280	560
<i>Existing Dad and Partner Pay</i>	-	-80	-80	-160
Family Tax Benefit (Parts A and B)	-	-60	-100	-160
Low Income Super Contribution	-	-	10	10
Payments to States	-	-540	-650	-1,190
Total administered payments	-	1,890	2,940	4,830
Administration of new PPL scheme	10	15	5	30
Existing maternity payments to public servants	-	-85	-100	-185
Departmental expenses	10	-70	-95	-155
<i>Receipts</i>				
Personal Income Tax	-	430	630	1,060
Superannuation Contributions Tax	-	50	70	120
Total receipts	-	480	700	1,180
Impact on underlying cash balance	-10	-1,340	-2,145	-3,495

Table A2 reconciles these components with the format presented in the party's costing document, on an underlying cash basis.

Table A2. Reconciliation with presentation in Coalition policy document

Impact on underlying cash balance(\$m)	2014-15	2015-16	2016-17	Total
Gross cost of the proposed PPL scheme	-10	-4,175	-5,685	-9,870
<i>New Primary Carer Scheme (including SG)</i>	-	-3,880	-5,400	-9,280
<i>New Secondary Carer Scheme (including SG)</i>	-	-280	-280	-560
<i>Administration of new PPL scheme</i>	-10	-15	-5	-30
Existing Government PPL scheme	-	1,670	2,000	3,670
<i>Existing Parental Leave Pay</i>	-	1,390	1,920	3,510
<i>Existing Dad and Partner Pay</i>	-	80	80	160
Existing Commonwealth and State maternity leave schemes	-	625	750	1,375
<i>Existing maternity payments to public servants</i>	-	85	100	185
<i>Payments to States</i>	-	540	650	1,190
Automatic adjustments to Government spending and revenue	-	540	790	1,330
<i>Family Tax Benefit (Parts A and B)</i>	-	60	100	160
<i>Low Income Super Contribution</i>	-	-	-10	-10
<i>Personal Income Tax</i>	-	430	630	1,060
<i>Superannuation Contributions Tax</i>	-	50	70	120
Net impact	-10	-1,340	-2,145	-3,495

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Table A3 provides estimates on a fiscal balance basis. A positive number for expenses represents an increased liability incurred by the Commonwealth, while a positive number for revenue represents an increase in money payable to the Commonwealth. The impact on the fiscal balance is the change in revenue less the change in expenses.

Table A3. Disaggregation of costing – Fiscal balance basis

(\$m)	2014-15	2015-16	2016-17	Total
<i>Expenses</i>				
Paid Parental Leave	-	2,490	3,680	6,170
<i>Consisting of:</i>				
<i>New Primary Carer Scheme (including SG)</i>	-	3,880	5,400	9,280
<i>Existing Parental Leave Pay</i>	-	-1,590	-1,920	-3,510
<i>New Secondary Carer Scheme (including SG)</i>	-	280	280	560
<i>Existing Dad and Partner Pay</i>	-	-80	-80	-160
Family Tax Benefit (Parts A and B)	-	-90	-110	-200
Low Income Super Contribution	-	10	10	20
Payments to States	-	-540	-650	-1,190
Total administered expenses	-	1,870	2,930	4,800
Administration of new PPL scheme	10	15	5	30
Existing maternity payments to public servants	-	-85	-100	-185
Total departmental expenses	10	-70	-95	-155
<i>Revenue</i>				
Personal Income Tax	-	430	630	1,060
Superannuation Contributions Tax	-	50	70	120
Total revenue	-	480	700	1,180
Impact on fiscal balance	-10	-1,320	-2,135	-3,465

Table A4 reconciles the components with the format presented in the party's costing document, on a fiscal balance basis.

Table A4. Reconciliation with presentation in Coalition policy document

Impact on fiscal balance(\$m)	2014-15	2015-16	2016-17	Total
Gross cost of the proposed PPL scheme	-10	-4,175	-5,685	-9,870
<i>New Primary Carer Scheme (including SG)</i>	-	-3,880	-5,400	-9,280
<i>New Secondary Carer Scheme (including SG)</i>	-	-280	-280	-560
<i>Administration of new PPL scheme</i>	-10	-15	-5	-30
Existing Government PPL scheme	-	1,670	2,000	3,670
<i>Existing Parental Leave Pay</i>	-	1,590	1,920	3,510
<i>Existing Dad and Partner Pay</i>	-	80	80	160
Existing Commonwealth and State maternity leave schemes	-	625	750	1,375
<i>Existing maternity payments to public servants</i>	-	85	100	185
<i>Payments to States</i>	-	540	650	1,190
Automatic adjustments to Government spending and revenue	-	560	800	1,360
<i>Family Tax Benefit (Parts A and B)</i>	-	90	110	200
<i>Low Income Super Contribution</i>	-	-10	-10	-20
<i>Personal Income Tax</i>	-	430	630	1,060
<i>Superannuation Contributions Tax</i>	-	50	70	120
Net impact	-10	-1,320	-2,135	-3,465