PARLIAMENTARY BUDGET OFFICE

NSW Parliament • Parliament House, Macquarie Street Sydney 2000

Referred by:	Coalition	**Proposal No:**	C1359
Date Referred:	7/2/2023	**Date Published:**	20/03/2023

Proposal Title: A bright future for NSW Children

Cluster: Cross-Cluster

General Government Sector Impacts

	2022-23 $'000	2023-24 $'000	2024-25 $'000	2025-26 $'000	4 year Total $'000
Expenses (ex. depreciation)	2,500	379,800	229,602	255,210	**867,112**
Depreciation	-	-	-	-	**-**
Less: Offsets	-	-	-	-	**-**
Revenue	-	-	-	-	**-**
Net Operating Balance:	**(2,500)**	**(379,800)**	**(229,602)**	**(255,210)**	**(867,112)**
Capital Expenditure	-	-	-	-	**-**
Capital Offsets	-	-	-	-	**-**
Net Capital Expenditure:	**-**	**-**	**-**	**-**	**-**
Net Lending/(Borrowing):	**(2,500)**	**(379,800)**	**(229,602)**	**(255,210)**	**(867,112)**

Total State Sector Impacts

Net Lending/(Borrowing):	**(2,500)**	**(379,800)**	**(229,602)**	**(255,210)**	**(867,112)**

Notes and costing assumptions:

This policy proposes an intergenerational accumulation scheme for eligible children, that is, a fund to be managed by the Government, into which parents', grandparents' and government contributions can be deposited, to be withdrawn for housing and education when a child reaches the age of 18. This policy is intended to be implemented from October 2023.

The Parliamentary Budget Office (PBO) estimates the policy to cost $867 million over the forward estimates. As children are only able to draw down on funds once they turn 18, there are significant ongoing costs beyond the forward estimates of around $282 million per year from 2026-27, which increases by around $28 million per year going forward.

The value of the potential contract with the retail fund management partner is not included in the costing as currently there is no comparable information available. The contract value could only be determined in a tender process.

Refer to **Appendix 1** for cost breakdown.

Notes and costing assumptions continued:

Key information of the proposed scheme

For each child born in NSW in 2023 with at least one of their parents who is an Australian citizen or Australian permanent resident, parents would have the opportunity to create an 'account' for their child with the NSW Government. Eligible children in year one of the scheme include a child born in 2023 or a child aged up to 10 and from year two a child born in 2024, year three a child born in 2025 and so on. Each child's 'account' would start with a $400 contribution from the NSW Government. The account would have to be voluntarily created by the parent and would not be automatic. Another way to describe the arrangement, rather than as an account, is that it will create a future entitlement for a child to share in the earnings of government managed funds. For convenience this costing uses the term 'account', but it is important to note that it differs significantly from accounts in banks or other financial institutions.

Each subsequent year, NSW Government would make contributions to the child's account in accordance with the family circumstances:

- For children of families receiving the Commonwealth Family Tax Benefit A, the Government would contribute $200 into the account. Parents and grandparents of these children could make further contributions to the account and receive a matched Government contribution of up to $200.
- Parents and grandparents of all other children would also be able to contribute to the fund and the Government would make a co-contribution capped at $400.

There are no parental or matched contributions in the first year when the account is created.

This would create a future pool of money for the child that can only be drawn down when the child turns 18 and only for two specific purposes: housing and education. No early withdrawal is allowed. Money would not have to be drawn down all at once.

All money would be pooled in a Special Deposit Account (SDA) with the investment of funds to be managed by NSW Treasury Corporation (TCorp) and investment returns to be proportionally shared across accounts.

The NSW Government charges no account fees. Contributions made into the accounts are post tax and there are no concessional tax benefits for these contributions. At the time of withdrawal, funds may be taxed but would be subject to tax-free thresholds.

Parents of children that move interstate or overseas will no longer be eligible to receive contributions or make contributions. Money that has been accumulated in the fund before moving will remain in the SDA until the child turns 18, at which point they will be able to draw this funding down for housing or education purposes.

The earliest account drawdown will be in 2031-32, for children entering at the age of ten when the scheme opens.

Key assumptions

- Treasury and the Department of Customer Service (DCS) have recommended the proposed scheme be jointly administered by Treasury and Service NSW in collaboration with TCorp and a retail fund management partner. Refer to the table below for details.

Entity	Responsibilities
Treasury	Treasury would lead on final policy design and implementation, including legislative aspects. Treasury would conduct a market tender process to engage a retail fund management partner to provide the relevant retail fund

Notes and costing assumptions continued:

	management services. Treasury would settle and manage the contract with the successful tenderer.
Service NSW	Service NSW would administer the scheme by providing services including checking eligibility, issuing reference numbers, keeping personal details, answering account queries, performing assessments relating to fund withdrawal, etc.
Retail fund management partner	The retail fund management partner would provide retail fund financial management services, such as receiving parental and NSW Government contributions, transferring funds to TCorp for investment, making withdrawal payments, reconciling transactions flowing in/out against reference numbers, identifying the number of units held against each reference number, etc.
TCorp	TCorp would manage the pooled fund in trust on behalf of unit holders and advise on the daily performance of the fund and corresponding value of units in the fund.

- Treasury's Procurement team has recommended a market tender process to engage a financial services provider to provide the retail fund management services specifically required to administer the proposed scheme. This is because the NSW Government does not have any existing Banking contracts that allow the provider to perform the services described in the table above.
- Treasury has considered the costs of previous tendering for the banking contract in 2018, wages policy outcomes indexation, and external legal expenses, etc., and advised the total costs to conduct the tender process and engage the proponent (including settling the contract and the other associated establishment costs) could be closer to $5 million, split over 2022-23 and 2023-24.
- The annual number of births in NSW is based on ABS Census 2021 data, and NSW Department of Planning and Environment's data '2022 CPA Population and Dwelling projections', which is used by Treasury's Common Planning Assumptions Group.
- 78% of families are assumed to take up the proposed scheme. This is based on the take-up rates for the current NSW Active Kids program. There is currently no comparable scheme in NSW on which to measure take-up rates. Refer to the sensitivity analysis below for more details.
- For the purpose of this costing, the PBO assumes all families which take up the scheme have met the eligibility criteria, however, notes that this may be lower in practice.
- Based on the forecast annual number of births and the scheme take-up rate, the PBO assumes that in the first year of operation, up to 783,050 accounts would be opened and accepting deposits. In the second year, up to 76,172 new accounts would be opened for new-born babies.
- There are 32% of families eligible to receive the Commonwealth Family Tax Benefit A, based on data from the Department of Social Services (published September 2021) and ABS Census 2021 data. The policy assumes 30% of these families would make a yearly contribution of $200 to receive a matched Government contribution capped at $200, on top of the granted $200. In the absence of empirical data on the operation of a scheme like this, the PBO has no basis on which to make an alternative assumption. We have accepted it for the purposes of the costing. The PBO notes however that should the rate vary either up or down it would significantly affect the estimated costs of the policy.
- For families who do not receive the Commonwealth Family Tax Benefit A, the PBO assumes 50% of these families would make a yearly contribution of at least $400 to their children's

Notes and costing assumptions continued:

accounts to receive a matched Government contribution capped at $400. This is based on the 2012-2021 take-up rates of a comparable scheme in Canada, the Canadian Registered Education Savings Plan (RESP) scheme.

- Based on the assumption that individuals are accepting the market and investment risks, TCorp has proposed a gross return target of:

CPI + 3.5%

- This is based on TCorp's Long Term Growth Fund, the investors of which are closest in risk profile to this proposed fund. This rate of return models a 67% probability of achieving this rate of return over the estimated investment hold period, which is a minimum 18 years for most children, and a minimum eight years for those 10-year-old children who join the fund in the first year of operation.
- TCorp has advised that if the Government guarantees a rate of return, the Government would need to make up the shortfall if the actual rate of return is not met. This would result in additional costs to the Government.
- TCorp has advised the administration fees for the pooled fund to be 40-50 basis points (0.4-0.5%).
- Treasury has confirmed that TCorp administration fees can be deducted before distributing investment returns to the unit holders, i.e., NSW Government would not need to bear the cost of TCorp administration fees.
- The PBO has calculated the interest costs associated with the borrowings to support the Government's cash contributions into the SDA over the forward estimates as follows:

	2023-24	2024-25	2025-26
Average interest rate on new debt issued by TCorp	4.20%	3.90%	3.90%
Estimated TCorp borrowings ($ million)	313	202	219
Interest costs ($ million)	13	21	30

- DCS has provided an estimate of:
  - operational costs to provide the services of over-the-counter transactions at the service centres, contact centre telephone enquiries, hyper-care, manual assessment, fraud detection, fraud law enforcement, ministerial correspondence, digital services (application to create an account online), and IT security, based on previous Service NSW programs
  - set-up costs for Application Programming Interface (API) to the NSW Registry of Births, Deaths, and Marriages (BDM) to identify children born in NSW, API to the external retail fund management partner, and the relating project management, legal consultation, and procurement expenses. Refer to **Appendix 1** for a cost breakdown.
- DCS has not provided costs for compliance with financial services legislation. This is because the retail fund management partner would comply with the legal and risk management frameworks associated with the function of accepting deposits, making payments and financial management of the funds during the retainment period, including meeting the anti-money laundering obligations.
- Treasury has advised that the Government will essentially be managing the money in the SDA as a Trustee. Government contributions into the SDA should be treated as an expense to the Government when payments are made to the SDA.

Risks and uncertainties

- The value of the potential contract with the retail fund management partner is not included in the costing as currently there is no comparable information available. The contract value could only be determined in a tender process.

Notes and costing assumptions continued:

- Depending on the agreement reached with the retail fund management provider, legislative compliance of the fund and who is responsible to guarantee compliance, may increase the costs of administering the fund. The PBO is not able to determine the cost implications of these without the completion of a tendering process.
- Treasury notes there is significant uncertainty around the external legal expenses because the legal expenses would likely be higher and determined by the final scheme design and successful tender proposal.
- Treasury has advised that the engagement and ongoing management costs for administering the scheme could only be finalised after the scope of services and policy/scheme design is completed. It is likely that resourcing to implement the scheme would be greater than what can be absorbed, however the cost of additional resources required cannot be currently estimated.
- DCS notes that the proposed scheme will require significant legislative and regulatory changes. The design of the legislation and associated policies and guidelines will impact the implementation and operational costs borne by DCS.
- DCS has advised that a few items, such as the costs to verify changes in eligibility due to parents of children moving interstate or overseas, media and communication costs (upfront and on-going), additional procurement costs relating to items not foreseeable at this stage are not included in the estimate of DCS's administration costs.
- The policy assumes that the fund would be operational by October 2023, however DCS has advised that a two-year timeframe is preferred. DCS's estimate of the set-up costs is based on a two-year timeframe. The PBO notes that accelerating the timeframe would require a re-prioritisation of agency activities and increase the costs.
- DCS notes that with the previous Service NSW programs, the programs with fewer constraints have higher take-up rates. DCS's estimate of the operating costs is based on 780,000 established accounts and 98,000 annual new births in NSW as per BDM data without adjusting for the PBO's forecast take-up rates. The PBO acknowledges the slight difference in DCS's assumption of the number of accounts to be administered, however the PBO considers there is no material impact as Service NSW's operating costs only contributes to 7% of the total policy costing over the forward estimates. The PBO also acknowledges the high uncertainty of the take-up rates. Refer to the sensitivity analysis below for more details.
- The PBO has also noted the below factors which may not significantly impact the costs to the Government over the forward estimates, however, would likely have an impact to the future costs:
    - the definition of the 'housing' and 'education' purposes and circumstances in which money can be drawn down when the child turns 18
    - the potential requirement to share data with Commonwealth if access to the fund will affect the entitlement to Commonwealth benefits such as Centrelink, rent assistance, etc.
    - the potential requirement to share data with the Australian Taxation Office (ATO) if there is a tax compliance requirement to report withdrawals of funds to the ATO and to deduct income tax before making payments
    - a potential dispute resolution and appeal process
- The above factors are subject to the changes of the final policy design and the relevant legislative requirements. Therefore, no reliable estimate can be made at this stage, to quantify the impact these factors may have on the costing to the Government in the future years.

Sensitivity analysis

The estimated cost of implementing the proposed policy over the forward estimates under several scenarios is presented below. Scenarios A and B relate to the sensitivity of the cost to the assumption of the take-up rates.

NSW has never had a comparable scheme and while the PBO has used the Service NSW voucher scheme take-up rates, actual take-up rates may vary. Factors affecting take-up rates include: the dollar

Notes and costing assumptions continued:

amount of the benefit available and whether other more attractive options exist, how closely the scheme matches people's perceived needs, how easy it is to apply and how heavily it is promoted and advertised. This list is not exhaustive and given the length of the scheme and there is the potential for individual circumstances to change which could also impact contributions.

Table 1 – Sensitivity analysis

	Base case	Scenario A -10% take-up rate	Scenario B +10% take-up rate
Scheme take-up rate	78%	68%	88%
Cost over the forward estimates ($ million)	867	765	969

Appendix 1 Cost breakdown

	2022-23	2023-24	2024-25	2025-26	4 years Total
	$'000	$'000	$'000	$'000	$'000
Initial contributions	-	313,220	30,469	30,456	374,145
Contributions to FTB A families	-	-	65,238	71,584	136,822
Contributions to non-FTB A families	-	-	106,427	116,780	223,207
Treasury administration costs	2,500	2,500	-	-	5,000
Service NSW administration costs (set-up)	-	13,004	-	-	13,004
Service NSW administration costs (on-going)	-	37,921	6,430	6,818	51,169
Borrowing costs	-	13,155	21,038	29,572	63,765
Total costs	**2,500**	**379,800**	**229,602**	**255,210**	**867,112**