

REPORT
CM/7.2/19.12

Subject: Fees and Charges 2019-20 - Amendment - Early Education and Care Services - Exhibition

TRIM No: A19/0783

Author: Annette Trubenbach, Executive Manager, Community Programs
Teena Su, Executive Manager, Finance

Director: Emily Scott, Director, Community, Assets and Operations
Darren Smith, Chief Financial Officer

RECOMMENDATION:

That Council:

1. Endorses the proposal for amended fees for Council's early education and care services to enable Council to achieve full cost recovery of services, as per the Pricing Policy.
2. Publicly exhibits the proposed \$12 increase to early education and care service fees for the extended period of 11 December 2019 to 31 January 2020.
3. Officers report back to Council on the results of the public exhibition at the February Council meeting.
4. Notes that, in addition to the proposed fee increase, Council officers are investigating various strategies to optimise staffing and improve efficiencies in response to emerging needs and trends.

1. Executive Summary

Council has undertaken an internal service review of its education and care services to improve financial sustainability. This review identified that, at the Q1 budget review, Council's Early Education and Care Services will record a loss of over \$1 million dollars, and are not meeting Council's full cost recovery target; see Attachment 1). Further, the review highlighted that financial performance has been declining in the last five years leading to this result.

The key issue is that the increase in labour costs, being 75% of our cost base, over the last five years (including this budget year) is significantly higher than the price adjustments implemented over the same time. The report details the internal and external issues that have caused these increases and some of the proposed actions being taken to abate further increases beyond CPI.

This report recommends increases to Council's Fees and Charges for its four Early Education Centres (EECs) and recommends that the proposed changes be placed on extended public exhibition due to the holiday period. Pending community feedback and Council's approval, the new fees will be effective from early 2020, with the next fee increases proposed for January next year, thus aligning future increases for the EECs to the school year. The proposal does not include the Council's Family Day Care services.

Historically, Council's has stated its pricing policy to deliver family and children's services is based on a cost recovery methodology. This proposal is planned to achieve cost recovery for the EEC, with the implementation by January 2021.

2. Introduction/Background

With 230 places across four EECs (plus Waverley Family Day Care), Council is the largest local child care provider in the local government area (LGA). Waverley Council has a long and unique history in quality early education and care and enjoys a strong reputation for providing accessible education and care, accepting babies from six weeks of age. One of the four centres provides eight places for Council employees as work-based child care, and holiday care is available for enrolled children in the January break.

Historically, due to size, layout, age groups and staffing requirements, some centres have performed better than others and this is likely to continue. Mill Hill EEC has been found to have the most efficient operations in terms of staffing which is the biggest single expenditure item accounting for about 75% of expenditure.

Predominately, revenue for EECs is received through a combination of client fees and government subsidies. Over the last five years, Council has increased placement price per day by amounts generally reflecting CPI.

Unfortunately, the costs associated with operating quality education and care services have continued to increase annually at a rate greater than CPI, and the existing fees that Council charges do not cover the operational requirements of its services. A series of challenges and unfavourable conditions have driven up labour costs significantly. The internal and external factors leading to these results are discussed in this report.

These proposals aim to ensure Council's fees are competitive with other local service providers non-subsidised ensuring competitive neutrality, and adjusted to reflect increases in the cost of care over the last five years. Benchmarking against other local providers, the average daily fee in the local government area is currently \$139, which is above Council's current fees (\$122 for babies and \$116 for 3-5-year-olds). If the proposal is confirmed, Council's fees will become \$134 for babies and \$128 for 3-5-year-olds.

3. Relevant Council Resolutions

Meeting and date	Minute No.	Decision
Council 19 November 2019	CM/7.3/19.11	<p>That Council:</p> <ol style="list-style-type: none"> Notes that the Chief Financial Officer, as the responsible accounting officer, advises that the projected financial position of Council is satisfactory. Adopts the variations to the 2019–20 Operating and Capital budgets in accordance with Attachments 1, 2 and 3 to this report. Officers report back to Council urgently on recommended fee increases for Early Education Centre services to ensure that fees recover the true cost of services.

4. Discussion

The cost of care is one of many factors that determines a family's decision when choosing child care.

Child care is regulated to provide universal access and Council's centres include both residents and families from outside the LGA who are participating in the local labour market. The Australian government provides a Child Care Subsidy to improve access for all families. The size of the subsidy is means tested and is dependent on a family's income providing a significant reduction for low-income families and reasonable contributions towards costs for middle- and higher-income families. The figure below outlines how it works.

Family income

We'll work out your Child Care Subsidy percentage using [your family income estimate](#).

Your Child Care Subsidy percentage is the amount we'll subsidise. It will apply to either your [hourly fee](#) or the relevant [hourly rate cap](#), whichever is lower.

Your family income	Child Care Subsidy percentage
\$0 to \$68,163	85%
More than \$68,163 to below \$173,163	Between 85% and 50% The percentage goes down by 1% for every \$3,000 of income your family earns
\$173,163 to below \$252,453	50%
\$252,453 to below \$342,453	Between 50% and 20% The percentage goes down by 1% for every \$3,000 of income your family earns
\$342,453 to below \$352,453	20%
\$352,453 or more	0%

You can still claim this subsidy even if your family income estimate is \$352,453 or more. If you actually earn less than this, we'll pay you the subsidy you're entitled to. We'll do this when we [balance your payments](#) at the end of the financial year.

Annual cap

If your family earns \$188,163 or less, you won't have an annual cap on your subsidy.

If your family earns between \$188,163 and \$352,453 we'll cap your subsidy. This means we'll subsidise your fees up to the annual cap of \$10,373 per child each financial year.

Figure 1. Child care subsidy (source: Department of Human Services).

Council may wish to provide further assistance to low income (< \$68,163) families from our LGA to ensure the proposed increase do no disadvantage their utilisation of our EECs. Please note that should this be the case, Council officers will need to do further work to devise such a program.

Key issues affecting Council's EECs cost structure

A range of external and internal factors have impacted on the operations of children's services, increasing budget pressures. These include:

- Changed usage patterns have resulted in families dropping children off earlier in the day and picking them up later in the evening – this means increased staffing at both ends of the day.
- Increased regulatory requirements in NSW, labour shortages in the Eastern suburbs (high living costs/relatively low wages); difficulty predicting staff movements and filling fixed term contracts.
- Challenges reconciling family friendly, supportive and flexible working arrangements with strictly applied ratios - this creates difficulties with rosters and sourcing suitably qualified staff when needed.
- With 99% of the workforce made up by women, children's services are disproportionately impacted by maternity or carer's leave provisions. With nine staff members currently on maternity/carers leave, this impacts on replacement cost as do Return to Work arrangements involving changes to full time and part time work. Provisions need to be made to provide a buffer for these situations.
- Some long-term employees are looking for flexible arrangements to transition into retirement.
- Budgets are extremely tight with little scope for achieving cost efficiencies in non-labour force related areas. Nappies will no longer be provided from 2020 representing a small saving.

Regulatory requirements and staff establishment

Staff working in Council's centres usually have a Certificate 3, Diploma or are teacher-trained. The table below summarises both the staff-child ratio and the number of teacher services required on-premise depending on the number of total enrolments. This forms the basis of Council's staff establishment and staff replacement requirements.

Table 1. Staff ratio requirements.

Staff Ratio Requirements (Education & Care Services National Regulations, (Reg. 123, 271)	
Age	Ratio
0 to 24 months	1:4
Over 24 months to less than 36 months	1:5
Over 36 months to school age	1:10
Reg 272: 2 Early childhood teachers (ECTs) must be in attendance at all times that a centre-based service is educating and caring for 40 to 59 children preschool age or under. For centres caring for 60-79 children, 3 ECTs must be in attendance. Reg 126: (a) 50% or more of Educators must have or working towards Diploma qualification, (b) all other educators must have or actively working towards Cert III	

Costs

It has become clear that with cost increases over recent years, fees have not sufficiently kept pace to cover costs. Total expenditure on staffing costs in 2015–2016 was \$4,583k. This has increased to \$5,925k in 2019–2020 being a \$1,342k increase.

Revenue on the other hand has only increased by from \$5,958k in 2015–2016 to \$6,734k in 2019–2020 being a \$775k increase. This differential has been the main driver for the declining budget performance of the EECs which are now losing over \$1 million a year (2018–2019 and 2019–2020).

Overview of Council's EEC services and 2019–20 fees

Table 2. EEC services and 2019–20 fees.

Approved Places	Babies 0-2s	Toddlers 2-3s	Pre-schoolers 3-5s	Staff (EFTs)	Fees under 3s	Fees over 3s
Bronte Early Education Centre, 42 Thomas Street Bronte						
51	0	31	20	10	N/A	\$116
Gardiner Early Education Centre, 6 Gardiner Street, Bond Junction						
56	16	20	20	12.5	\$122	\$116
Mill Hill Early Education Centre, 25 Ebley Street, Bondi Junction						
52	16	15	20	14	\$122	\$116
Waverley Early Education Centre, Clementson Park, Newland Street, Bondi Junction						
71	16	15	40	16.5	\$122	\$116

Fees

The 'Care for Kids' website <<https://www.careforkids.com.au/home/childcarecosts>> publishes the average cost of Long Day Care before subsidy. It lists the following fees for the Waverley LGA:

Table 3. Published child care costs on Care for Kids website.

Published child care costs on Care for Kids website, November 2019	
Bondi 2026	\$135
Bondi Junction 2022	\$122
Rose Bay 2029	\$154
Waverley 2024	\$144
Waverley LGA average	\$138.75

With \$122 for babies and toddlers and \$116 for pre-schoolers, Council is currently charging below the industry average for the Waverley LGA. A detailed cost analysis has shown that for Council to apply the 'full cost recovery' principle, fees will need to be increase by \$20 per child per day from the current 2019–20 level.

It is proposed that this could be implemented over the next 12 months as part of aligning fee increases with the commencement of the school (calendar) year. More specifically, for the new school year an adjustment of \$12 per child per day in early 2020 could be implemented. Approximately a year later for the 2021 school year an adjustment of say CPI plus \$8 may be implemented. Thus, over the 12 months the Council will restore the EECs a full cost recovery operations position. Additionally, during the next 12 months the EECs will look for potential cost efficiencies that may reduce the need for an increase at the beginning of 2021.

Table 4. Projected income from fee increase.

When	Fee increase	Budgeted Fee Income 2019/20	Projected Income from Fee Increase 2019/20
March 2020	\$116 to \$128 \$122 to \$134 \$12 per day fee increase	\$6,734,949.	An additional ~ \$230k over 4 months Mar-Jun 2020 Calculated on no of places by age group by no operating weeks by no of days per week

When	New fees & charges 2020/21	Budgeted Fee Income 2019/20	Projected Income from Fee Increase 2020/21
January 2021	\$128-\$136 + CPI \$134-\$142 + CPI \$7 for 3-5's \$8 for 0-2's	\$6,734,949	~ \$7,450k projected income 2020/2021 \$716k increase over current 2019 budgeted revenue Calculated on no of places by age group by no operating weeks by no of days per week

These fee calculations are based on 96.7% utilisation or 222.5 places (as opposed to 230 which is the total number of places). This is quite high, but reflects the performance of Council's four centres over recent years. However, services operate in a competitive market and this will be felt more intensely once the fee differential no longer provides quite the same level of incentive for families when compared to similar fees of other providers. This means that Council's centres might also start to carry vacancies which is experienced already by other providers, particularly in the pre-school age group where the demand is not as strong. It is worth noting, however, that our current waitlist is 555 families.

Other changes impacting on the budget

The environment in which Council operates children's services is complex and dynamic with changes continuing to affect operational budgets for some time to come. These are discussed below.

- Recent changes to the Commonwealth Child Care Subsidy which has replaced Child Care Benefit have impacted on people's access to subsidised care and has made predictions of fee income slightly more challenging. Many families are reportedly opting out of receiving Child Care Subsidy as it is much more restrictive and administratively burdensome. The system now in place has been widely criticised, including most recently by KPMG considering it a barrier to economic growth and a disincentive for women wanting to return to work.

- State Government support for EECs is likely to undergo some changes from July 2020. Legacy funding (currently totalling \$127,615) is likely to be reduced. This will affect all early education and care services in NSW.
- Funding reforms will favour pre-school provision. This may present opportunities for Council with some families looking for dedicated pre-school services, yet unmet demand remains high for baby places.

Council officers and early childhood staff are pursuing various strategies that contribute to innovation and change so that services can operate more efficiently in a changed environment while striving to meet high quality standards. These include re-introducing traineeships at the centres, replenishing the casual pool, promoting Council centres with relevant colleges to attract graduates, reviewing rosters and management arrangements and using cost competitive agency staff. Recommendations relating to essential/optimal staffing arrangements recently developed by a consultant were also reviewed.

Considerations moving forward

The focus for children's services will be on the following:

- Analysis of survey responses from local families to help optimise centre operations, including operating hours, number of children per centre, age groupings, curriculum changes, etc.
- Implement adjustments to staffing and management arrangements, including provisions to cover maternity leave and staff entitlements such as gradual return to work and transition to retirement.
- Seek endorsement from ELT to consolidate staff establishment/implement trials relating to floats and trainees.
- Explore opportunities for change, partnerships and service/facility enhancements in response emerging trends and research.

5. Financial impact statement/Time frame/Consultation

A minimum of 28 days' exhibition is required by section 610F of the *Local Government Act 1993*. As we are heading into the holiday season, Council officers recommend extending the exhibition period to allow families adequate time to respond to the proposed changes. The holiday timetable means that Council could consider feedback at the earliest at the meeting on 18 February 2020.

If endorsed by Council, the fee increase is likely to be implemented in March 2020. Survey responses from families to be analysed in November will be complementing anecdotal evidence and feedback from directors about current parental and carer's attitudes, preferences and expectations. While EECs survey their families annually, engagement topics were extended to feed into Council's service review.

The public exhibition period is expected to run from mid-December to the end of January 2020, followed by a further report to Council presenting any internal and external feedback Council will receive.

Notification of this exhibition will be displayed on Council's Have Your Say website and in the Wentworth Courier. Families attending Council's Early Education Centres will be notified of the proposal and the consultation details.

6. Conclusion

This report proposes options for a gradual fee increase over 12 months in Council's early education and care (EEC) services to ensure that Council meets its cost recovery target and its obligations around competitive neutrality. Family Day Care fees are not included in this proposal.

Fees have not sufficiently kept pace to cover increased costs that have been absorbed in recent years. The proposal aims to ensure that Council's fees are in line with other local service providers, adjusted to reflect recent increases in the cost of care. Management measures to address operational costs will also be considered.

Council support for local low-income families could be considered to reduce the effect of the proposed fee increases.

Following endorsement and public exhibition, proposed amendments to Council's 2019–20 fees and charges policy could be implemented as early as March 2020. This will assist in addressing the current projected budget shortfall caused primarily by increased staffing costs.

7. Attachments

1. Early education centre fee increase analysis [↓](#)

EARLY EDUCATION CENTRE RATE INCREASE ANALYSIS

EARLY EDUCATION CENTRE	No Rate Increase					% of	Average
	2015/16	2016/17	2017/18	2018/19	2019/20	Total	Per
	Total	Total	Total	Total	Approved	Income	Place
	Actuals	Actuals	Actuals	Actuals	Budget		
Income	5,698,289	6,040,430	6,071,608	6,414,195	6,518,449		29,296
Other Income	260,052	191,796	250,742	198,387	215,362		968
Total Income	5,958,341	6,232,226	6,322,350	6,612,582	6,733,811		30,264
Employee Costs	(4,582,807)	(5,188,796)	(5,192,698)	(5,905,751)	(5,924,884)	88%	(26,629)
Other Expenses	(706,959)	(568,353)	(734,742)	(874,071)	(705,621)	10%	(3,171)
Indirect Expenses	(1,065,265)	(930,612)	(938,495)	(868,163)	(1,150,790)	17%	(5,172)
Total Expenses	(6,355,031)	(6,687,761)	(6,865,935)	(7,647,985)	(7,781,295)	116%	(34,972)
Net Result	(396,690)	(455,535)	(543,585)	(1,035,403)	(1,047,484)	16%	(4,708)

EARLY EDUCATION CENTRE	Rate Increase on 2019/20 Approved Budget					% of	Average
	2015/16	2016/17	2017/18	2018/19	2019/20	Total	Per
	Total	Total	Total	Total	Approved	Income	Place
	Actuals	Actuals	Actuals	Actuals	Budget		
Income	5,698,289	6,040,430	6,071,608	6,414,195	7,617,604		34,236
Other Income	260,052	191,796	250,742	198,387	215,362		968
Total Income	5,958,341	6,232,226	6,322,350	6,612,582	7,832,966		35,204
Employee Costs	(4,582,807)	(5,188,796)	(5,192,698)	(5,905,751)	(5,924,884)	76%	(26,629)
Other Expenses	(706,959)	(568,353)	(734,742)	(874,071)	(705,621)	9%	(3,171)
Indirect Expenses	(1,065,265)	(930,612)	(938,495)	(868,163)	(1,150,790)	15%	(5,172)
Total Expenses	(6,355,031)	(6,687,761)	(6,865,935)	(7,647,985)	(7,781,295)	99%	(34,972)
Net Result	(396,690)	(455,535)	(543,585)	(1,035,403)	51,671	-0.66%	232

Rates & Occupancy	2015/16	2016/17	2017/18	2018/19	2019/20	Proposed	Increase
	Total	Total	Total	Total	Approved	Rate	
	Actuals	Actuals	Actuals	Actuals	Budget		
Rate 0-3s	\$105	\$109	\$114	\$114	\$122	\$142	16.4%, \$20 p/d
Rate 4-5s	\$100	\$103	\$106	\$106	\$116	\$136	17.2%, \$20 p/d
Places occupied	222.5	222.5	222.5	222.5	222.5	N/A	N/A
Places licenced	230	230	230	230	230	N/A	N/A
Occupancy Rate	96.74%	96.74%	96.74%	96.74%	96.74%	N/A	N/A
Cost per child occupied P/Y	(28,562)	(30,057)	(30,858)	(34,373)	(34,972)	N/A	N/A
Cost per child licenced P/Y	(27,631)	(29,077)	(29,852)	(33,252)	(33,832)	N/A	N/A
Cost Per child per day	(116)	(122)	(125)	(139)	(142)		