



# **Ordinary Meeting**

**12 December 2006**

**SUPPLEMENTARY**

**REPORT**

**ITEM NO:** S1

**SUBJECT: FAMILY DAY CARE – CHANGE STRATEGIES IN RESPONSE TO REDUCED FEDERAL GOVERNMENT GRANT FUNDING**

**FILE NO:** C01671

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**Recommendations:**

1. *That the Council endorse the change management strategies for the Family Day Care operations outlined in this report, noting that the plan is to achieve sustainable funding in the 2008-2009 financial year.*
  2. *That the Council supports the continued funding of Family Day Care at current levels, noting the requirement to fund operational deficits for 2006-2007 and 2007-2008 from Family Day Care restricted reserves.*
  3. *That the Council approves the centralisation of Family Day Care office management and administration to the ex-Shire Council administration building at Lawson.*
  4. *That the Council approves the strategy to identify and contract with a suitable community agency the provision of the Blackheath Vacation Care program, and that the outcomes are the subject of a further report to the Council prior to the entering of any contract.*
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**Report by Group Manager, Community and Corporate:**

**Introduction**

The community based family day care model has a central coordination unit staffed by early childhood professionals, who work in partnership with registered Carers to deliver high quality childcare. The Service is funded by a mix of user fees, Federal Government grants and in the case of the Blue Mountains service, a small Council subsidy. Family Day Care Coordination Units are licensed by the Department of Families, Community Services and Indigenous Affairs. As has been previously reported to the Council, changes to Federal Government funding of Family Day Care implemented this year have resulted in a significant reduction in funding. Operational changes to accommodate the reduced levels of Federal Government funding have now been developed and are reported to the Council for endorsement and approval.

**Background**

In 2004, the Federal Government announced an intention to move the calculation of the funding grant for Family Day Care Coordination Units to one based on actual child attendance in care calculated on quarterly returns. This represented a significant departure from the previous methodology that was based on a quarterly averaging of booked places irrespective of whether the child actually attended care.

The impact of the changes to the funding formula is illustrated in the table below and reflects a decrease in funding of some 36.5% between the actual funding received in 2005-2006 and what is now forecast for 2007-2008:

Funding 2005-2006 (inclusive of \$26,769 Transitional Funding)	\$386,645
Funding 2006-2007 (inclusive of \$38,075 Transitional Funding)	\$253,693
Forecast Funding 2007-2008	\$228,800

### **Managing the Change – Strategies**

As previously reported the Council is holding a healthy balance in Family Day Care restricted reserves and this provides the ability to plan transitional changes over a 2 – 3 year period. The strategies proposed below are the outcomes of a number of workshops held with all Family Day Care staff over the previous 2 months.

- Review user fees
- Business growth
- Centralise operations
- Provide outreach services
- Increase mobility of field staff
- Reduce employment costs
- Review of services and duties
- Outsource Blackheath Vacation Care program
- Better use of technology

These strategies are now discussed further in detail.

#### **1. Increase User Fees**

It is proposed that the parent levy of \$0.55 per hour per child is increased in 2007-2008 by \$0.05 per hour, bringing it to \$0.60 per child per hour, equating to a 4.77% increase. While this is above the forecast CPI movement of 2.5%, the increase can be justified as a real cost recovery and at this level the Blue Mountains FDC Coordination Unit fees remain consistent with other local government coordination unit providers. This level of increase will result in additional revenue of approximately \$10,000.

#### **2. Business Growth**

There is evidence that the demand for childcare placements is growing and that more people, particularly mothers in an at-home situation, can be attracted to the Carer vocation. For the coordination unit there is a nexus between the number of children placed in and attending childcare and revenues to recover the coordination unit's costs. Revenues are sourced from the Federal Government grant and from the user fees applied as a per child levy paid directly by the parents. Growth within the scheme can only occur if the number of Carers in the scheme increases to match a rate of take-up of child placements. Growth in both of these areas will only occur with increased presence and promotion/marketing, particularly at the local level.

A strategy to recruit a net 10 additional Carers to scheme in 2007-2008, followed by a net increase of 5 Carers per year for the ensuing 2 years per year will provide an extra capacity for an additional 65 EFT child placements based on the current 3.25 EFT average children per Carer in the Blue Mountains scheme. This will require the dedication of resources to promotion and marketing and consequential recruitment and training. If the targeted growth rates are achieved there will be a need to increase the level of Childcare Support Officers in year 3 or 4.

### **3. Staff Costs**

Because of the people-service based nature of the activity, employment is the single largest expenditure item in the coordination unit's operations. While not desirable, it is unavoidable that there is a reduction in Family Day Care staffing levels. Rigorous analysis of services shows clearly that there cannot be any reduction to the front-line Childcare Support Officer services; indeed the changes proposed will require those services to be bought up to their full compliment and not diverted to other programs such as Vacation Care as it has been in the past.

The strategy implemented last year to merge the administration of Family Day Care with the Library Services has not produced the efficiencies required to justify the savings accrued from the reduction in staff overall. Essential to the future success is the reinstatement of the compliment of 2 EFT Family Day Care administration staff in a centralised situation with a re-definition of their duties to include a broader range of dealing with customer enquiry and response and providing outreach office administration services across the city on a regular basis.

The remaining option is to reduce the number of Team Coordinators. The pending retirement of a long-serving and valued Team Coordinator presents an opportunity to restructure that is now being planned for in the operations. This will not be a simple re-allocation of duties across the remaining staff but will require services to be reviewed, a redefinition of remaining positions and a different approach to service delivery in a number of areas.

### **4. Reduce Overhead Costs**

The significant proposal to reduce overhead costs is the centralisation of the Family Day Care Coordination Unit management and administration. The reduction in staffing means there are practical considerations driving this change in addition to cost saving outcomes. Currently Family Day Care operational centres are:

- Resource Centres at Katoomba and Blaxland
- Play Sessions provided at Lawson and Blaxland
- Administration services at Katoomba, Blaxland and Springwood (Library)

There are two options for centralising the operations. The first of these discussed is to centralise the operation to the old Blue Mountains Shire Council Office Administration Building in Lawson. These premises currently house the Lawson Library, a number of community agencies and serves as the Family Day Care play-sessions site for the mid-mountains. In this option the following would occur:

- Exit the accommodation at number 2 Station Street, Katoomba
- Centralise management, administration and Childcare Support Officer staff at the Lawson site

- Retain the centre in St Johns Road, Blaxland as a play session facility – requiring some coordination resource
- Provide an expanded play session facility at Lawson
- Develop and provide a mobile play session service for the Upper Mountains Carers and other Carers unable to access either Blaxland or Lawson facilities
- Provide regular outreach customer service and administration services at Katoomba (Civic Centre) and Blaxland, e.g. 0.5 day per week advertised presence at each location

There are substantive building refurbishments and other works required at the Lawson site, including the relocation of the outdoors staff amenities room to another part of the building. A rough order estimate of costs is \$130,000 with additional fit-out and play area development costs of approximately \$55,000 that have been budgeted to be funded from restricted reserves in the current year. If this option is adopted then the property at number 2 Station Street, Katoomba will be available for other community agency tenancies that are currently under pressure for additional accommodation.

The alternative centralisation option is that of the St Johns Road Community Building, Blaxland, currently occupied by Family Day Care as a Lower Mountains resource centre and substantive play session facility. FDC have recently been advised that the other tenants in the building have given notice to vacate and the whole of the premises may therefore be available for FDC to occupy on a long term lease basis. FDC currently has a lease on that part of the premises occupied until 2013. The obvious disadvantage with the Blaxland centralisation option is the geographical location being at the bottom of the mountain and not providing a central service per se at all.

As for the Lawson option there would be significant building alterations required to house the entire FDC operation and these works have been costed at (ROE) \$160,000. While the Blaxland option may have initially seemed desirable from an amenity point of view the scale and cost of works required now make it less attractive. This option is therefore not recommended.

### **5. Blackheath Vacation Care**

Family Day Care currently auspices the Vacation Care program in Blackheath.

All other Vacation care programs across the Mountains are operated by community groups, mostly in conjunction with Out of School Hours (OOSH) programs. The joint operation of OOSH and Vacation Care programs is a model that has been shown to work effectively, both financially and for the attending children.

The Blackheath Vacation Care program has been facing a financial loss due to low attendance combined with high staffing costs. The maintenance of the program has been assured through the Service Level Agreement (SLA) contribution from Council and some deployment of Family Day Care staff resources also funded through the SLA contribution.

Negotiations have recently commenced with the Blackheath Area Neighbourhood Centre (who operate an OOSH program) regarding the transfer of the auspice of the Vacation Care program.

It is Council staff's view that the co-management of the Vacation Care program with an OOSH/community agency linked into the Blackheath area will increase utilisation and thus improve the financial viability of the program. It is envisaged that, should negotiations be successful, the Vacation Care program could be devolved to the new auspice in July 2007.

A report will be presented to Council when negotiations have proceeded further.

### Summary 3-Year Budget Forecast

	2006/07	2007/08	2008/09	2009/10
REVENUE	\$628,326	\$603,250	\$644,685	\$686,785
EXPENDITURE	\$703,595	\$657,581	\$637,683	\$676,100
(SURPLUS) DEFICIT	\$75,269	\$54,331	(\$7,002)	(\$11,130)
TRANSFER FROM RESTRICTED RESERVES	\$109,621	\$54,331	\$0	\$0
NET (SURPLUS) DEFICIT	(\$34,352)	\$0	(\$7002)	(\$11,130)

### Restricted Reserves Forecast

	2006/07	2007/08	2008/09	2009/10
OPENING BALANCE	\$377,000	\$269,379	\$213,048	\$213,048
OPERATING (SURPLUS) DEFICIT	\$109,621	\$54,331	(\$7,002)	(\$11,130)
CLOSING BALANCE	<b>\$267,379</b>	<b>\$213,048</b>	<b>\$213,048</b>	<b>\$213,048</b>

### Sustainability Assessment

Family Day Care continues to be an important provider of child care services to parents in the Blue Mountains community fulfilling a niche in the market for child care that is not fully satisfied by other long day care providers.

The components for change that will put the Family Day Care operation onto a sustainable footing are a challenging mix of revenue growth strategies along with restructuring of the operation to achieve cost savings. It is vitally important that the standard of quality service necessary to attract and retain Carers and parents to the scheme continues. While the direct accessibility of some administrative and support services will be perceived as being lessened by the centralisation of the service to Lawson, the provision of regular outreach services to the Lower Mountains and Upper Mountains areas will mitigate this. Additionally, the increased mobility of Childcare Support Officers and optimisation of available technology will enable them to provide levels of support and assistance to Carers in the home not currently considered.

**Financial Implications**

The budget for 2006-2007 planned for a draw down from Family Day Care restricted reserves to fund an operating deficit of \$110,000. There will be a requirement to fund a further operating deficit in 2007-2008 of approximately \$55,000 from restricted reserves however a balanced operational budget will be achieved in 2009-2010 provided:

- the change management strategies outlined in this report achieve the cost savings and additional revenues from growth outlined, and
- the current level of Council subsidy is maintained

The draft budget planning for 2007-2008 currently in progress includes provision to maintain the current level of Family Day Care subsidy and the draw down on restricted reserves. There is an as yet unresolved question around the funding of the Blackheath Vacation Care program and in the event this requires ongoing funding out of the current SLA funded FDC subsidy, it will affect the budget bottom line presented.

The forecast draw down on restricted reserves will reduce the available balance to approximately \$213,000 by 2009, still providing a risk contingency buffer for future years, if required. In the event that the operation is able to achieve a small operating surplus in future years a policy decision could be taken to reduce the Council subsidy of Family Day Care accordingly.

**Conclusion**

The Council is committed to providing high quality Family Day Care services. The change strategies detailed in this report are a response to reduced Federal Government grant funding and for the ongoing viability and sustainability of the scheme in the Blue Mountains.

It is recommended the Council endorse the change management strategies for the Family Day Care operations outlined in this report, noting that the plan is to achieve sustainable funding in the 2008-2009 financial year.

It is recommended that the Council supports the continued funding of Family Day Care at current levels, noting the requirement to fund operational deficits for 2006-2007 and 2007-2008 from Family Day Care restricted reserves.

It is also recommended that the Council approves the centralisation of Family Day Care office management and administration to the ex-Shire Council administration building at Lawson.

It is further recommended that the Council approves the strategy to identify and contract with a suitable community agency the provision of the Blackheath Vacation Care program, and that the outcomes are the subject of a further report to the Council prior to the entering of any contract.