TRANSITION PAYMENT PRACTICE GUIDANCE FOR FAMILY DAY CARE SERVICES

July 2020

ACKNOWLEDGEMENT

We would like to thank the Family Day Care Australia (FDCA) COVID-19 Response Sector Advisory Committee for their selfless contribution of time, knowledge and resources in the ongoing participation in the structure to inform FDCA's work throughout the COVID-19 pandemic. Thank you also to the many FDCA members, educators and services, who contributed to this resource through informed, considered and solution oriented engagement.

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PRACTICE GUIDANCE FOR TRANSITION PAYMENTS

ABOUT THIS GUIDE

This guide has been developed to assist Family Day Care Australia (FDCA) service members following the recent implementation of the Transition Payment as an interim replacement for the Early Childhood Education and Care Relief Package (ECECRP) and JobKeeper Payments to support the childcare industry in the return to the Child Care Subsidy (CCS) and Additional Child Care Subsidy (ACCS) schemes.

FDCA has engaged Deloitte consultants to develop an independent good practice guide for services on how to distribute the Transition Payments to support a consistent and fair approach during the return to normal operations post COVID-19. It is important to note that this guide is not obligatory but is simply intended to support FDCA members in their decision-making.

GUIDING PRINCIPLES

Transition Payments should be distributed fairly to the service and its educators. Every service is different, so there is no consistent or universal approach that can be applied to achieve this fair distribution and services ultimately retain discretion as to how the Transition Payment is apportioned. This guidance proposes a number of options that a service may consider when deciding how to best distribute the payments.

Services should undertake these processes periodically as demand shifts.

While these are suggestions only, the decision-making approach suggested herein is underpinned by the following 3 key guiding principles.

Principle 1

Upon the return to the Child Care Subsidy System (CCSS) and in line with all relevant obligations under Family Assistance Law and contractual remuneration arrangements, services must remunerate educators for contracted services delivered.

Principle 2

The Transition Payment is intended to be received by the service in conjunction with the CCS, ACCS and parents' co-contribution fees to assist in the viability of the early childhood education and care (ECEC) sector and the transition back to the usual subsidy and co-contribution model.

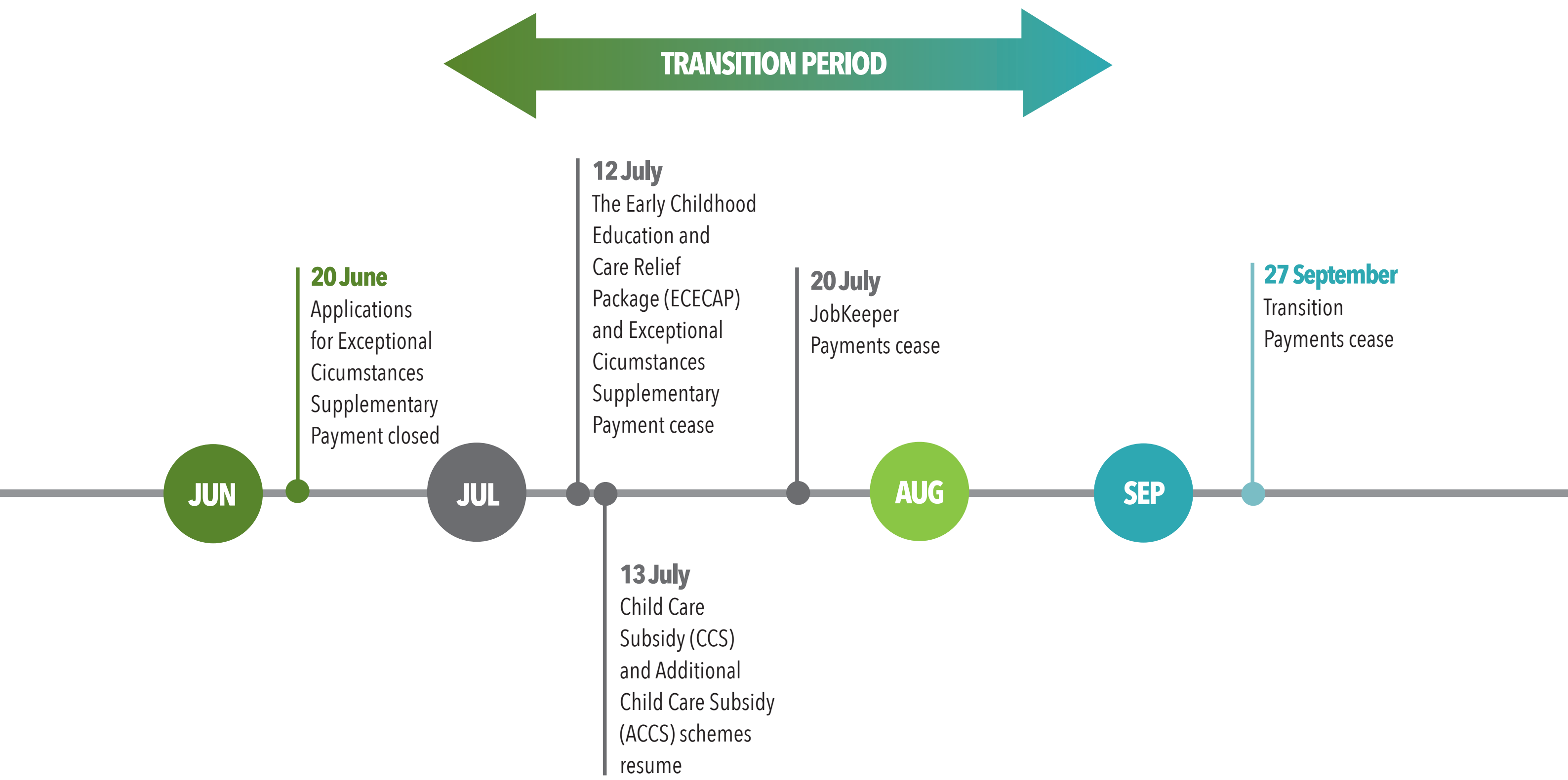
Principle 3

Given the Transition Payment is primarily intended to support ECEC services', return to the CCSS by accounting for potential variance in demand and the removal of JobKeeper eligibility, it should be allocated across the service (i.e. to both the service and educators), prioritising educator entities that continue to experience a reduction of income below their determined "viability point"[1], as a result of a decrease in demand due to the COVID-19 pandemic, once a service has utilised the Transition Payment to ensure its own ongoing viability.

1 Defined by the service, and in consultation with educators where appropriate, the determined "viability point" is the percentage of an educator's pre COVID-19 average revenue (less than 100%), whereby they remain financially viable. See Process 3 for more information.

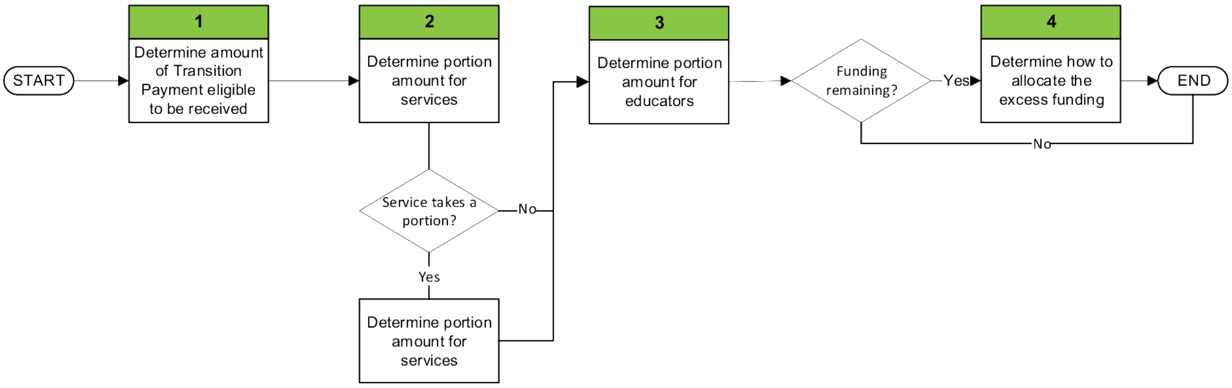
TIMELINE OF EVENTS

The timeline below illustrates some of the key dates to be aware of.



THE **PROCESS**

THE **PROCESS**



Each of the process stages are broken down into further detail to provide additional information in the relevant sections below. Notional examples are provided in each section to illustrate how services might work through each process.

PROCESS 1
Determine **amount** of Transition Payment to be received

PROCESS 2
Determine payment portion for **services**

PROCESS 3
Determine payment portion for **educators**

PROCESS 4
Determine how to allocate any **excess** funding

PROCESS 1

DETERMINE THE TOTAL FUNDING THAT A SERVICE IS ELIGIBLE TO RECEIVE FROM THE TRANSITION PAYMENTS

PROCESS 1	PROCESS 2	PROCESS 3	PROCESS 4
Determine **amount** of Transition Payment to be received	Determine payment portion for **services**	Determine payment portion for **educators**	Determine how to allocate any **excess** funding

PROCESS OBJECTIVE

Process 1 provides guidance as to how a service should determine the total funding that they should expect to receive from the Transition Payments under the Transition Payment grant. The purpose of undertaking this process is to encourage services to obtain a clear picture of their financial position over the transition period, which is essential to determine the most appropriate Transition Payment disbursement model for their individual circumstances.

The eligibility criteria for a service to receive a Transition Payment are as follows:

- The service must not receive JobKeeper on behalf of their employees working in the ECEC service from 20 July 2020 (or, if the provider is a sole trader, not receive JobKeeper for themselves). JobKeeper payments will cease from 20 July 2020 and be replaced by the Transition Payment.
- The service must not charge fees in the transition period (13 July to 27 September 2020) that exceed the fees charged by the provider in the relevant reference fortnight (i.e. educators cannot increase their fees to above pre COVID-19 rates during the transition period).
- The service must continue over the transition period to employ and to offer work to the employees of the approved ECEC provider who:
    - Were paid in the fortnight leading up to the end of the Relief Package (28 June to 12 July 2020).
    - Worked, were on short-term leave, or who did not work but were paid JobKeeper (excluding those on long term leave).

HOW TO CALCULATE

To calculate how much a service will receive from the Transition Payment they must first consider how much they received from the ECECRP. Under the ECECRP services received 50% of their revenue from the reference period (between Monday 17 February and Sunday 1 March 2020). Under the Transition Payment grant, services will be eligible to receive 25% of their revenue from the same reference period. To calculate the weekly Transition Payment each service should take half of their ECECRP payment. The Transition Payment will be paid for 9 weeks from 13 July to 27 September 2020. Therefore, the total Transition Payment = (ECECRP payment / 2) x 9.

PROCESS 2

DETERMINE PORTION AMOUNT FOR SERVICES

PROCESS 1	PROCESS 2	PROCESS 3	PROCESS 4
Determine **amount** of Transition Payment to be received	Determine payment portion for **services**	Determine payment portion for **educators**	Determine how to allocate any **excess** funding

PROCESS OBJECTIVE

The purpose of this Process 2 is to determine the portion of Transition Payment required to be retained by the service to ensure short term business viability for the service based on the level of demand anticipated in July (and in turn level of levies received), the removal of JobKeeper for service staff and the return to 100% fee levels. This section provides guidance on how services can retain a portion of the Transition Payment for the service itself in such a way that aligns with Principle 2.

Considerations as to how the Transition Payment should be apportioned:

- Services generally derive their revenue from levies built into the total hourly fee. Services will now need to determine if their revenue is significantly reduced from their pre COVID-19 average and if so, whether they should retain some of the Transitional Payment to assist in maintaining a viable business and/or returning to pre COVID-19 revenue levels.
- The removal of JobKeeper will mean that the provider will no longer be receiving JobKeeper for employees. This needs to be taken into account when the service is deciding how many staff it can support.
- Services should make a business decision as to the level of revenue required to remain viable in the short term while endeavouring to disburse the majority of the Transition Payment to support educators who have ongoing COVID-19 related demand challenges and hence revenue loss.
- If levels of demand remain low throughout the Transition Payment period, the service may also need to make some operational decisions to accommodate the new conditions they face, such as reducing the hours that some staff work.

Example 1

- Service X's average total fees for a pre COVID-19 fortnight is $100,000.
- The percentage of fees attributable to levies (the service's revenue) in this example is 15%, or in a pre COVID-19 fortnight, would be $15,000.
- The service is now also receiving $25,000 per fortnight in Transitional Payments.
- During the transition period, the service has seen its fortnightly total CCS and gap fee revenue drop to $80,000 due to decreased enrolments.
- The service retains its usual 15% levy revenue of the $80,000 total revenue, therefore its revenue falls to $12,000 a fortnight.

  Option 1: The service makes a business decision to use a portion of the Transition Payment for itself to ensure short term business viability and/or pay service staff:

  - In this case, a service may decide to retain $3,000 from the Transition Payment pool so that their total income maintains viability and normal service operations.
  - The balance of Transition Payment (i.e. $22,000) would then be allocated to educators, reserves or both, as outlined in Processes 3 and 4 below.

  Option 2: The service chooses not to use a portion of the Transition Payment and would rather reduce operational costs, for example, reducing the hours worked by its staff.

PROCESS 3

DETERMINE PAYMENT PORTION FOR EDUCATORS

PROCESS 1	PROCESS 2	PROCESS 3	PROCESS 4
Determine **amount** of Transition Payment to be received	Determine payment portion for **services**	Determine payment portion for **educators**	Determine how to allocate any **excess** funding

PROCESS OBJECTIVE

Once services have determined the appropriate portion to allocate to themselves, they should then determine how much of the remaining Transition Payment amount should be distributed to their educators in line with the Guiding Principles, particularly Principle 3.

This section provides guidance on how services can equitably distribute the Transition Payment to their educators in a way that aligns with the purpose of the Transition Payment as discussed in the Guiding Principles (see page 5).

Considerations as to how the Transition Payment should be apportioned by the service to educators, after accounting for the service's viability first, as outlined in Process 2:

- A service may consider establishing a determined "viability point" for educators, whereby any educator, earning under a certain percentage of their pre COVID-19 revenue as a result of decreased demand, may receive a portion of the Transition Payment to top their income up to a determined "viability point".
- If an educator is forced to temporarily close down due to genuine COVID-19 related matters or a directive from a public health authority, the Transition Payment may be used to provide financial support to the educator up to the determined "viability point".
- If an educator chooses to reduce their hours worked because of personal concerns about providing care during the COVID-19 pandemic, then this is considered a business decision by the educator and the service will make an operational decision about how to and the length of time for which it is viable and appropriate to support this decision in a way that sees the most suitable outcome for both the educator and the service.
- The service must continue to employ and to offer work to the employees who were paid in the fortnight leading up to the end of the Relief Package (28 June to 12 July 2020).

OPTIONS

1. **Top-up educators' payments where they are operating at reduced capacity**

Distribute a portion of the Transition Payment to educators as a top-up payment where they are not able to generate their pre-COVID-19 revenue.

Example 1: Educator's revenue has decreased substantially

- Pre COVID-19, Educator A contributed $5,000 to the service's total revenue of $100,000 per fortnight. After the service's 15% levy is deducted, Educator A would net $4,250 per fortnight.
- Post COVID-19 with the removal of JobKeeper, Educator A will see their average revenue decrease by 30% compared to their pre-COVID revenue to a net (after levy) total of $2,975.
- The service may then choose to allocate a portion of the Transition Payment to increase the revenue of Educator A over the transition period. This may be achieved by determining the amount required to top-up Educator A's revenue to a particular percentage of their pre-COVID fortnightly revenue and then paying this amount to the educator on a fortnightly basis out of the Transition Payment received by the service.

Example 2: Service-wide "determined viability point"

For services with higher numbers of educators that have highly variable levels of revenue, they may consider implementing a service-wide strategy for topping up educators. An option for consideration may involve the establishment of a determined "viability point" to assist in determining an appropriate, proportional Transition Payment allocation strategy.

See Table 1 and instructions below for an illustrated example of how a "viability point" allocation strategy may work in practice.

Table 1: Viability point illustrated example

STEP 1

	A	B	C	D	E
Educator Name	Pre COVID Revenue	Viability Point (VP)	VP Revenue	Current Revenue	Variance
Educator 1	$3,000.00	85%	$2,550.00	$3,750.00	$1,200.00
Educator 2	$3,750.00	85%	$3,187.50	$2,750.00	-$437.50
Educator 3	$4,000.00	85%	$3,400.00	$3,250.00	-$150.00
Educator 4	$2,200.00	85%	$1,870.00	$2,250.00	$380.00
Educator 5	$2,750.00	85%	$2,337.50	$2,400.00	$62.50
Educator 6	$5,000.00	85%	$4,250.00	$4,100.00	-$150.00
Educator 7	$4,350.00	85%	$3,697.50	$2,800.00	-$897.50
Educator 8	$2,250.00	85%	$1,912.50	$2,250.00	$337.50
Educator 9	$2,750.00	85%	$2,337.50	$1,900.00	-$437.50
Educator 10	$3,250.00	85%	$2,762.50	$2,650.00	-$112.50

Step 1

Establish a list of all educators that includes:

- Pre COVID-19 average revenue.
- The "viability point" i.e. the percentage threshold of educators' pre COVID-19 average revenue, less than 100%, whereby they remain financially viable (in this case, for example, 85% of pre COVID-19 average revenue).
- The dollar figure of their "viability point" revenue.
- The educator's current revenue.
- The variance between educator's "viability point" revenue and their current revenue.
- Remove all educators currently earning above the "determined viability point" from the list (i.e. those earning more than 85% of their pre COVID-19 average revenue).

STEP 2

	A	B	C	D	E
Educator Name	Pre COVID Revenue	Viability Point (VP)	VP Revenue	Current Revenue	Variance
Educator 2	$3,750.00	85%	$3,187.50	$2,750.00	-$437.50
Educator 3	$4,000.00	85%	$3,400.00	$3,250.00	-$150.00
Educator 6	$5,000.00	85%	$4,250.00	$4,100.00	-$150.00
Educator 7	$4,350.00	85%	$3,697.50	$2,800.00	-$897.50
Educator 9	$2,750.00	85%	$2,337.50	$1,900.00	-$437.50
Educator 10	$3,250.00	85%	$2,762.50	$2,650.00	-$112.50
				Total TP Portion Required	-$2,185.00

Step 2

- Of the remaining educators currently earning under the "viability point", total the variance dollar amount.
- Compare this to the balance left after the service has taken the portion allocated for its own viability, as outlined through Process 2.
- If the sum of the total variance (ie total Transitional Payment educator portion required) is greater than the Transitional Payment balance remaining, the service may consider lowering the percentage threshold of the determined "viability point".
- Distribute a portion of the balance as deemed appropriate in order to get as many operating educators as close to the "viability point" as possible, prioritising those in greatest need.

2. Assist educators who are temporarily unable to operate

Assisting educators who are temporarily unable to operate due to genuine COVID-19 related reasons (i.e. a forced closure by a public health authority), or those choosing not to operate due to personal health concerns.

Consider the following examples:

Example 3: Educator is unable to provide care due to forced closure

- Educator B has been forced to temporarily close due to a public health authority determination and has been unable to resume service. As Educator B is unable to provide their services or access JobKeeper, the service may choose to provide them with a portion of the Transition Payment as close as possible to their determined "viability point" to financially support them through the period until they can resume provision of services. It is a service's business decision as to the period of time that such an arrangement may be sustainable for both parties.

3. Make a business decision where educators are unwilling to provide care

Example 4: Educator chooses not to work

- Educator C chooses not to work because of personal concerns about providing care during the COVID-19 pandemic. The service may make a business decision whether or not they will offer any financial support to Educator C out of the Transition Payment received and if so, the length of time that this may be appropriate.

PROCESS 4

DECIDE HOW TO ALLOCATE ANY REMAINING FUNDING FROM THE TRANSITION PAYMENT

PROCESS 1
Determine **amount** of Transition Payment to be received

PROCESS 2
Determine payment portion for **services**

PROCESS 3
Determine payment portion for **educators**

PROCESS 4
Determine how to allocate any excess funding

PROCESS OBJECTIVE

This section provides guidance on how services can allocate the remaining funding received from the Transition Payment (if any), after undertaking Processes 2 and 3 and allocating a portion to the service and educators.

OPTIONS

1. Remove or reduce service levies

The service may choose to use the Transition Payment to remove or reduce the levies that the service charges its educators. This option will result in educators receiving more revenue for their services without charging higher fees (again, this is not permitted for services receiving Transition Payments), while the service still receives their portion as they usually would. As such, this arrangement supports the educators out of goodwill.

Example 6:

- Service Z has average total fees for a pre COVID-19 fortnight of $100,000. The service has a total levy of 15%, which would normally leave $85,000 to disburse to educators.
- The service is currently operating at 90% of pre COVID-19 capacity and making revenue of $90,000 per fortnight. After the service subtracts their 15% service levy there is $76,500 left to distribute to educators.
- The service may then choose to reduce the service levy so that all of the $90,000 revenue per fortnight is available for dispersion to the educators. The service will then keep $13,500 from the Transition Payment instead of receiving 15% of the revenue through levies. The balance of the Transitional Payment could then be apportioned as per Processes 3 and 4 (Option 1).

2. Save excess as cash reserves

The funding remaining from the Transition Payment following on from having undertaken Processes 2 and 3 may be stored in a cash reserve fund for use post the transition period ending on 27 September 2020. By reserving some of the funding received from the Transition Payment in cash reserves at the time that it is received, the service may then draw upon these reserves to assist educators or the service at a later date as required.

Example 5:

- After subtracting payments to the service and educators, Service X will retain a total Transition Payment of $1000 per fortnight. The service chooses to store this in a cash reserve account. In October, one of the educators is forced to temporarily close down due to genuine COVID-19 related concerns. The service may then draw from the cash reserve account to financially assist the educator through this time.

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