

Answer to a question on notice by Family Day Care Australia

Hearing: 22 September 2020

Date answered: 7 October 2020

Question:

Senator SIEWERT: Does that mean that the transition payment is proving to be very difficult for family day care?

Mr Paterson: Yes. The structure of the way that it's designed doesn't fit the model well. In principle, the system design is okay. Where it falls apart is where it relies on the waiving of gap fees, additional absences and the CCS component flowing through to the educator. Where we see high levels of an unenrolment for whatever reason, where the CCS rate for the particular educator might be very low, that's where we see things fall over. That direct flow of revenue through to the educator is a key fundamental of the design, and that's where that system falls over.

Senator SIEWERT: You don't have an idea of the quantum of that? Because it links into the JobKeeper process, I presume you don't have a precise idea about how many people are affected but you know it's an ongoing issue out there.

Mr Paterson: Yes, that's right. We certainly can garner that data from the sector by way of direct consultation, if you'd like a number.

Senator SIEWERT: We don't need a number per se. The issue is the scale—basically getting an understanding of the size of the problem and how many people and how many services are affected. Obviously this has an impact on the educators themselves but also on the people that use the services, particularly given the non-standard hours that they provide.

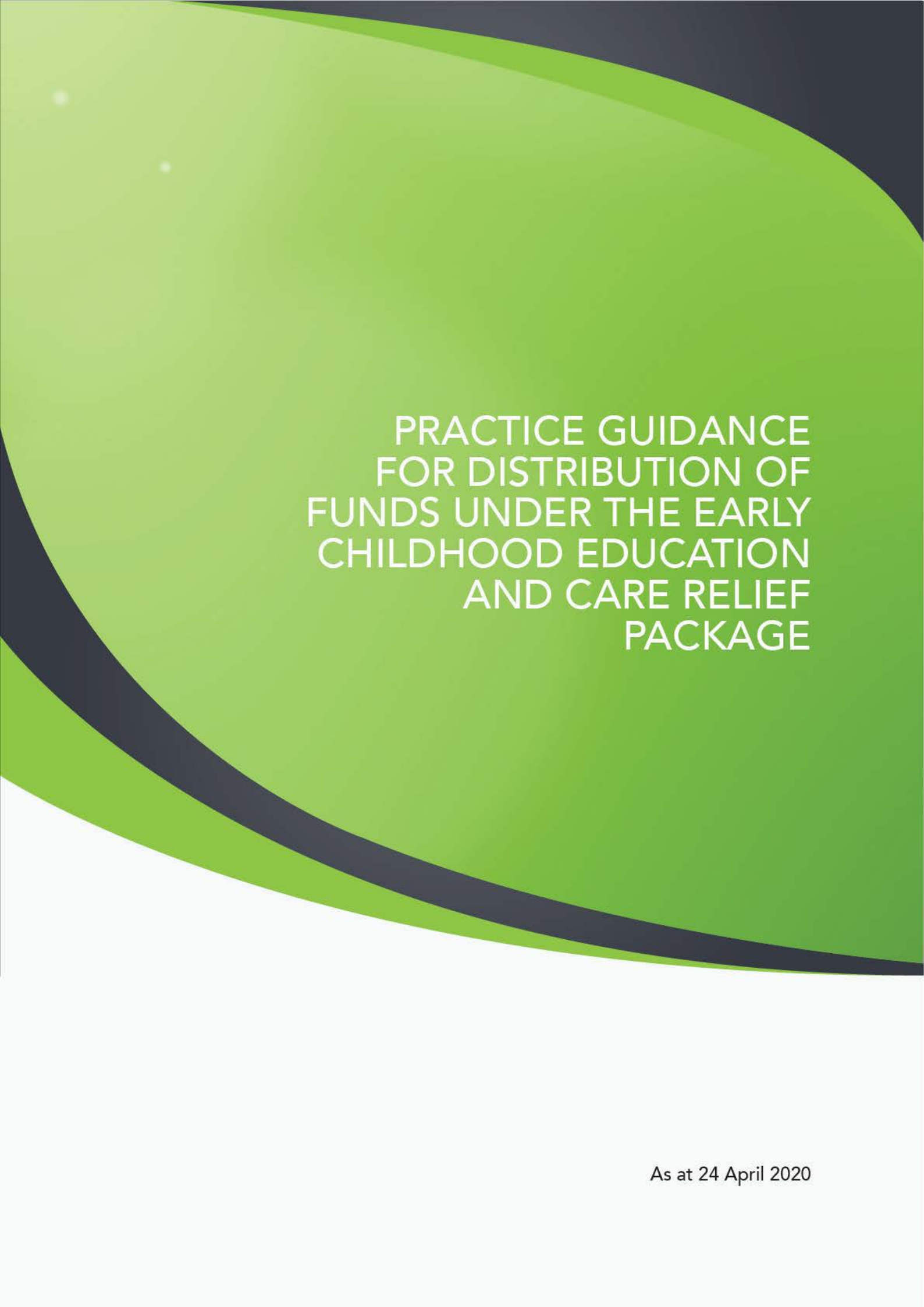
Mr Paterson: Yes, sure.

Senator SIEWERT: That would be appreciated. Thank you.

Answer:

Regarding Senator Siewert's question regarding the scale of impact of educators not being supported by the Transition Payments:

FDCA survey data of member services in Victoria (as at 14 August 2020) indicated that 27% of service respondents were not passing on any Transitional Payment to educators. Sample size 15% of all CCS approved services in Victoria (22/130).



PRACTICE GUIDANCE FOR DISTRIBUTION OF FUNDS UNDER THE EARLY CHILDHOOD EDUCATION AND CARE RELIEF PACKAGE

As at 24 April 2020

ACKNOWLEDGEMENTS

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 development of this guide. During a time of significant uncertainty these service representatives have demonstrated a commitment to shared leadership and collaborative, collective effort for the betterment of the family day care sector.

Thank you also to the many FDCA members, educators and services, who contributed to this resource through informed, considered and solution oriented engagement.

FDCA would like to express its sincere appreciation to Deloitte for expediting efforts to consult the sector and output this guidance. Their expertise and the independent perspective they have provided has been invaluable in the development of guiding principles that, in a challenging environment, encourage fairness and equity for all stakeholders.

For more information about this guidance document, please contact FDCA at enquiries@fdca.com.au.

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UNDERSTANDING THIS GUIDE



PRACTICE GUIDANCE FOR DISTRIBUTION OF FUNDS UNDER THE EARLY CHILDHOOD EDUCATION AND CARE (ECEC) RELIEF PACKAGE

ABOUT THIS GUIDE

This Guide has been developed to meet a need identified by Family Day Care Australia (FDCA) service members following the recent implementation of the Early Childhood Education and Care Relief Package (ECEC Relief Package). Given the complexities of the ECEC Relief Package for the family day care delivery model, FDCA has engaged Deloitte to develop an independent practice guide for services on how to distribute the ECEC Relief package payments to support a consistent and fair approach to the administration of funds to achieve equitable financial outcomes for both educators and services during the COVID-19 pandemic. Please be aware that this guide is not obligatory but is simply intended to support our service members in their decision-making.

GUIDING PRINCIPLES

The approach suggested herein is underpinned by the following key 5 guiding principles.

Principle 1

The ECEC Relief Package is designed to work in conjunction with the JobKeeper Payment scheme. Where services and/or educator are not eligible for JobKeeper payments, the service should apply for an equivalent amount through the supplementary payment process AND distribute this amount in full to service staff or educators.

Principle 2

The ECEC Relief Package is not a parity model, nor a profit model, and as such, funds allocated, to either educators or the service, should not result in a profit. That is, where the combination of JobKeeper payments and

ECEC Relief Package payment allocations exceed the pre-COVID-19 average, the excess should be withheld to assist educators disproportionately affected by the ECEC Relief Package model.

Principle 3

Services should consider an equitable levy that reflects a revenue reduction to the service as a whole - one that allows for the service to remain viable whilst taking into account payments from the ECEC Relief Package, as well as its own JobKeeper payments or equivalent payments under the supplementary payments funding mechanism.

Principle 4

ECEC Relief Package payments should be distributed fairly to eligible educators. This guidance proposes that an educator's percentage of ECEC Relief Package payments is based on the percentage of revenue they contribute to a service's overall revenue in a reference period that accurately reflects pre COVID-19 activity. This methodology accounts for both fees charged and hours worked.

Principle 5

Where a service's ECEC Relief Package payment is not reflective of pre and/or post COVID-19 activity, they should apply for supplementary payments and this should be distributed in line with Principle 4.

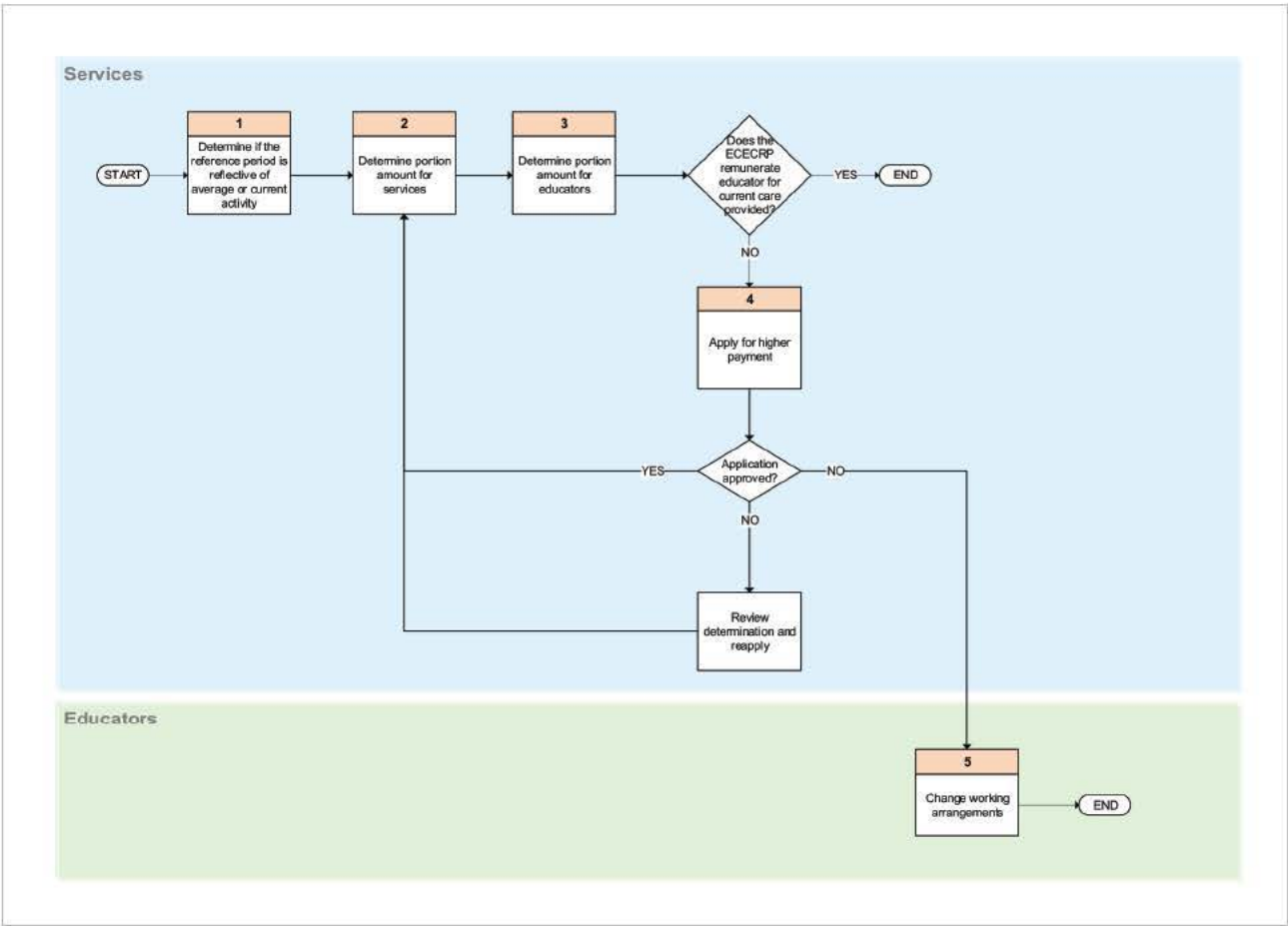
THE **PROCESS**



THE PROCESS

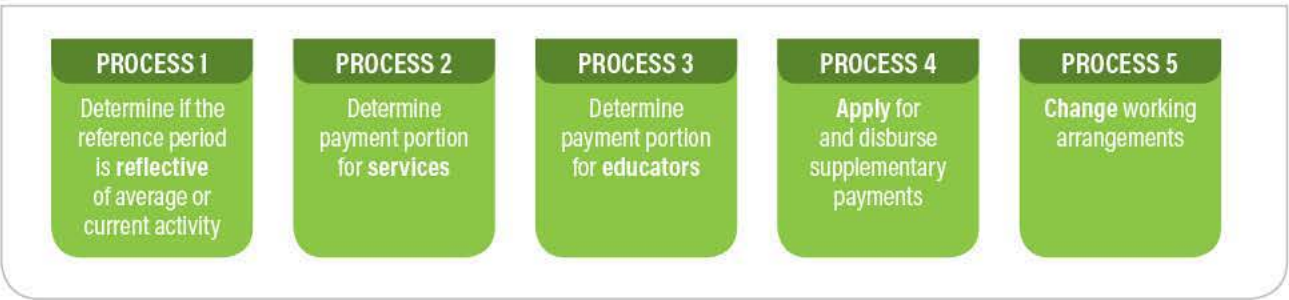
The following high-level process flow has been developed to assist services with decision-making as to how they can equitably distribute funds received under the ECEC

Relief Package. Please note that the process is informed by the Guiding Principles outlined above and information published by the Australian Government.



Each of the process stages are broken down in 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 IF THE
REFERENCE PERIOD
IS REFLECTIVE
OF AVERAGE OR
CURRENT ACTIVITY

PROCESS 1

Determine if the reference period is **reflective** of average or current activity

PROCESS 2

Determine payment portion for services

PROCESS 3

Determine payment portion for educators

PROCESS 4

Apply for and disburse supplementary payments

PROCESS 5

Change working arrangements

PROCESS OBJECTIVE

This process stage provides guidance as to how a service may determine if the reference period used to calculate the ECEC Relief Package payment accurately reflects the average work performed pre COVID-19 pandemic or current service delivery volumes (where actual care delivered has increased).

Considerations as to why the reference fortnight may not be accurately reflective:

- The reference period did not account for all educators and their average work hours.
- The reference period does not reflect the average revenue the service or educators would normally receive pre COVID-19 pandemic.
- The volume of actual service delivery has increased post the COVID-19 pandemic.

EXAMPLE SCENARIOS:

- *An educator/educators or the service as a whole saw reduced attendance/enrolments (such as children being pulled out of care as a precautionary measure) PRIOR to the reference fortnight.*
- *If an educator/educators has had to close their business due to the public health advice or for other health and safety reasons PRIOR to the reference fortnight.*
- *If an educator/educators were not providing care (or reduced care) DURING the reference fortnight i.e. due to leave or sickness.*
- *If an educator/educators have been engaged POST the reference fortnight.*
- *If an educator/educators were delivering significant hours of non-standard hours of care and the standard ECEC Relief Package calculation does not account for this.*
- *The ECEC Relief Package payment plus JobKeeper payment does not accurately account for the amount*

of care being delivered by educators either by maintaining a high occupancy rate and/or delivering longer/more hours.

- *There has since been an increase in enrolments due to COVID-19 from 6 April 2020 onwards.*

HOW TO ASSESS

To reasonably determine if the reference period reflects the average revenue pre COVID-19 pandemic, or if post COVID-19 total service delivery levels have increased, services have a number of options in which they can perform a comparison. Some examples are provided below.

OPTION 1: PRE-COVID-19 AVERAGE REVENUE BASED ON PRIOR QUARTER

1. Determine your average revenue based on the prior quarter (1 December 2019 to 1 March 2020 inclusive).
2. Determine the fortnightly average revenue from this total (total number of weeks in this quarter divided by 2).
3. Determine the impact of activity changes in your service post reference fortnight (post 2 March 2020) to determine potential revenue not accounted for in your allocation.
4. Determine if this fortnight amount is greater than or less than your ECEC Relief Package payment.
 - i. If it is greater than your currently received ECEC Relief Package payment then you have the option to apply for a higher payment – refer to Process 4 for further details.
 - ii. If it is less than your currently received ECEC Relief Package payment, continue to the next Process 2 to 'Determine payment portion for services'.

**OPTION 2: PRE COVID-19 AVERAGE REVENUE
BASED ON COMPARABLE QUARTER OR PERIOD
(SERVICE TO SELECT)**

1. Determine your average revenue based on the comparable quarter (e.g. Quarter 1 of financial year 19/20, Quarter 2 of financial year 19/20, Quarter 3 of financial year 19/20 or Quarter 4 of financial year 18/19).
2. Determine the fortnightly average revenue from this total (total number of weeks in this quarter divided by 2).
3. Determine the impact of activity changes in your service post reference fortnight (post 2 March 2020) to determine potential revenue not accounted for in your ECEC Relief Package payment.
4. Determine if this fortnight amount is greater than or less than your ECEC Relief Package payment. If it is greater than your currently received ECEC Relief Package payment then you have the option to apply for a higher payment – refer to Process 4 for further details.
 - i. If it is less than your currently received ECEC Relief Package payment, continue to the Process 2 to 'Determine payment portion for services'.

**OPTION 3: PRE COVID-19 AVERAGE ANNUAL
REVENUE BASED ON YEAR PRECEDING 1
MARCH 2020 (THAT IS THE PERIOD UP TO THE
END OF THE REFERENCE PERIOD 2 MARCH
2019 TO 1 MARCH 2020)**

1. Determine your average annual revenue.
2. Determine the fortnightly average revenue from this total (total number of weeks that the service operated in the year divided by 2).
3. Determine the impact of activity changes in your service post reference fortnight (post 2 March 2020) to determine potential revenue not accounted for in your ECEC Relief Package payment.
4. Determine if this fortnightly amount is greater than or less than ECEC Relief Package payment. If it is greater than your currently received ECEC Relief Package payment then you have the option to apply for a higher payment – refer to Process 4 for further details.
 - i. If it is less than your currently received ECEC Relief Package payment, continue to the next Process 2 to 'Determine payment portion for services'.

PROCESS 2

DETERMINE PAYMENT PORTION FOR SERVICES



PROCESS OBJECTIVE

Services should determine what portion of this payment is allocable to them and their educators in an equitable manner in line with the Key Guiding Principles.

This section provides guidance on how services can determine the appropriate proportion of the ECEC Relief Package payment to retain prior to equitable disbursement to educators.

Considerations as to how the ECEC Relief Package payment amount should be apportioned:

- Services generally derive their revenue from levies built into the total hourly fee. Services will now need to determine what portion they will retain from the ECEC Relief Package payment.
- The intention of the package is to operate concurrently with JobKeeper. If the service is eligible for JobKeeper they will receive payments for each service employee. This should be accounted for in determining the service's allocation. Where a service is not eligible for JobKeeper they should apply for supplementary funding (see Process Stage 4).

- As such, the percentage of fees attributable to levies in this example is 15%.
- Under the ECEC Relief Package this service will receive \$50,000 a fortnight.
- If the service retains the 15% levy revenue of the \$50,000 ECEC Relief Package payment, it would retain \$7,500.
- If this service has 3 staff they will receive \$6,000 in JobKeeper per fortnight.
- In this example the combination of 50% of levy revenue plus \$6,000 in JobKeeper payments totals \$12,000, which is 80% of their pre COVID-19 revenue.
- Services should make a business decision as to the level of revenue required to remain viable in the short term while endeavouring to disburse as close to the full 50% ECEC Relief Package payment onto educators as possible.

In line with Principle 2, a service should not retain a service revenue portion that, when combined with their JobKeeper payment, is more than their total pre COVID-19 revenue.

HOW TO ASSESS

1. Determine the percentage of the service's total revenue that is derived from levies. Where a service continues to derive revenue from another source, this should be accounted for in the calculation of the service's allocation of the ECEC Relief Package payment.
2. Determine what percentage of the total fee revenue a service's levy represents. For example:
 - Service XYZ's average total fees for a pre COVID-19 fortnight is \$100,000.
 - Of this average total fee, \$15,000 is attributable to service levies.

PROCESS 3

DETERMINE PAYMENT PORTION FOR EDUCATORS

PROCESS 1

Determine if the reference period is reflective of average or current activity

PROCESS 2

Determine payment portion for services

PROCESS 3

Determine payment portion for educators

PROCESS 4

Apply for and disburse supplementary payments

PROCESS 5

Change working arrangements

PROCESS OBJECTIVE

Once services have determined the appropriate portion allocable to them, they should then determine how much of the remaining ECEC Relief Package payment amount can and will be distributed to their educators in line with the Key Guiding Principles, particularly Principle 4.

This section provides guidance on how services can equitably distribute the educator portion of the ECEC Relief Package payment to their educators.

Considerations as to how the ECEC Relief Package payment should be apportioned:

- As the intention of the ECEC Relief Package is to operate concurrently with JobKeeper, if the individual educator is eligible, e.g. as a sole trader, for JobKeeper they will receive \$1,500 per fortnight directly from the Australian Government.
- Where educators are not eligible for JobKeeper, a service should make an application for supplementary payments and include this information in their supplementary payment application (see Process 4).
- The ECEC Relief Package payment amount that each service receives should be distributed in a way such that all educators are fairly compensated based on their average work hours pre-COVID-19 as calculated in Process 1; pending any necessary ongoing adjustments to the changing 'whole of service' environment.
- Note that in instances where the educator has seen their work hours and/or number of children cared for increase due to COVID-19, they should be duly compensated by the service through applying for supplementary payments (see Process 4) or through the disbursement of any remaining funds resulting from the net outcome of apportioning of the component of the ECEC Relief Package payment.

Example Educator Disbursement Model

Service XYZ 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 now receives \$50,000 a fortnight (\$25,000 a week) through the ECEC Relief Package and continues to take a 15% levy from the ECEC Relief Package payment, which leaves \$42,500 to disburse to educators. Note that the ECEC Relief Package payment for the reference fortnight may differ from the average reference fortnight calculated in Process Stage 1.

Service XYZ has 35 educators who work variable hours and charge variable fees.

Example 1 - Educator A

- Educator A's fee is at the lower end of the service's fee charging schedule and works standard hours.
- Educator A contributed 3% of the service's total revenue calculated in Process Stage 1.
- Pre COVID-19, Educator A contributed \$3,000 to the service's total revenue of \$100,000 per fortnight. After the service's 15% levy is deducted, Educator A would net \$2,550 per fortnight.
- Post COVID-19, Educator A will receive 3% of the ECEC Relief Package payment balance of \$42,500 which is \$1,275. Educator A will also receive the JobKeeper payment or equivalent supplementary payment which is \$1,500. This equals a total of \$2,775.
- **HOWEVER**, in line with Principle 2, as this amount is higher than Educator A's pre COVID-19 net revenue, Service XYZ should withhold the difference between the pre and post COVID-19 net revenue. In the case of Educator A this would equate to \$225.
- The withheld funds should be pooled and distributed equitably to other educators who incur a deficit net revenue post COVID-19.

Example 2 - Educator B

- Educator B's fee is at the higher end of the service's fee charging schedule and also works significantly above average hours, including non-standard hours.
- Educator B contributed 5.5% of the service's total revenue calculated in Process Stage 1.
- Pre COVID-19, Educator B contributed \$5,500 to the service's total revenue of \$100,000 per fortnight. After the service's 15% levy is deducted, Educator B would net \$4,675 per fortnight.
- Post COVID-19, Educator B will receive 5.5% of the ECEC Relief Package payment balance of \$42,500 which is \$2,337.50. Educator B will also receive the JobKeeper payment or equivalent supplementary payment which is \$1,500. This equals a total of \$3,837.50.
- Educator B has incurred a net deficit of \$837.50 (18%) under the ECEC Relief Package.
- If surplus funds exist as a result of withholding a portion of other educators' above-threshold ECEC Relief Package payments, Service XYZ should equitably allocate a portion of these funds to Educator B to 'top up' the difference and thus reduce the deficit experienced by Educator B in line with Principles 2, 4 and 6.

If no surplus funds exist, a service should consider the supplementary payment option and whether the circumstances of educators with a net deficit align with the criteria for application for supplementary payments (see Process Stage 4).

If the service is not eligible for supplementary payments, and they have educators with significant net deficits (who are still providing care at pre COVID-19 levels or higher), the service may make a business decision to lower the combined ECEC Relief Package payment and JobKeeper ceiling for all educators in line with Principle 4, thereby, generating a pool of surplus funds to more equitably remunerate all educators across the service.

Prior to the commencement of JobKeeper payments, a service may make a business decision in the interim to make adjustment to the disbursement model to ensure that all educators have some level of revenue.

SCENARIOS AFFECTING DISBURSEMENT CONSIDERATIONS

Scenario 1. Educator did not provide care during the reference fortnight at all or at their usual level

The result of this is that the reference fortnight calculation is not representative of a services average total fee revenue. As per Process 1, the service should be establishing a reference period that more accurately reflects its average total fee. As per Process 3, the educators' percentage portion of the ECEC Relief Package payment should reflect their contribution to total revenue established by Process 1 i.e. their normal level of revenue contribution.

This scenario is grounds for a service to make an application for supplementary payments, which if successful, should retrospectively increase the total ECEC Relief Package payment amount.

Scenario 2. Educator ceases to provide care due to being shut down by a public health authority or for other valid health and safety reasons

The educator remains eligible for an equitable portion of the ECEC Relief Package payment; however, a service may make a business decision to adjust the combined ECEC Relief Package payment and JobKeeper ceiling such that adjustments can be made to the disbursement to provide some provision for variance in ongoing actual attendances across the educators within the service. For national guidance released by the Department of Health in relation to categories of people who may have valid health concerns in relation to COVID-19 and specific conditions that may increase risk to safety as a result of contracting COVID-19, please see here.

Scenario 3. Educator remains open and available to provide care, though children are not attending

The educator remains eligible for an equitable portion of the ECEC Relief Package payment; however, a service may make a business decision to adjust the combined ECEC Relief Package payment and JobKeeper ceiling such that adjustments can be made to the disbursement to provide some provision for variance in ongoing actual attendances across the educators within the service.

Scenario 4. Educator is choosing to self-isolate and is not available to provide care

In line with Principle 6, this educator would not be eligible for ECEC Relief Package payments. The educator may still apply for JobKeeper if the educator meets the eligibility requirements as a sole trader or other business entity.

Scenario 5. Significant variance in the actual level of ongoing care provision between educators

In line with Principle 4, where a service experiences significant variance in the actual level of ongoing care provision between educators, and requires a mechanism to acknowledge this variance, they may make a business decision to apportion its educators' ECEC Relief Package payments up to a percentage ceiling and distribute remaining pool of funds in accordance with ongoing levels of care provided by each educator.

PROCESS 4

APPLY FOR
AND DISBURSE
SUPPLEMENTARY
PAYMENTS

PROCESS 1

Determine if the reference period is reflective of average or current activity

PROCESS 2

Determine payment portion for services

PROCESS 3

Determine payment portion for educators

PROCESS 4

Apply for and disburse supplementary payments

PROCESS 5

Change working arrangements

PROCESS OBJECTIVE

For a range of reasons, some of which are outlined in Process 1, the ECEC Relief Package payment amount received may not accurately reflect a service's total average revenue pre COVID-19, or post commencement of the Package where total care being provided exceeds that of the pre COVID-19 average.

A supplementary payment is available for providers who need a 'top up' on the ECEC Relief Package payment (base relief payment) that the service is already getting

through the ECEC Relief Package. The supplementary payment is designed to help where the service has been significantly impacted economically as a result of the COVID-19 pandemic to make sure the service remains viable. Providers seeking a supplementary payment amount need to complete an online form and outline their circumstances. The form is available at dese.gov.au/covid-19/childcare.

This section provides guidance on how services can assess the eligibility criteria to apply for a supplementary payment.

HOW TO ASSESS

As a service, you should ask the following questions:

QUESTION 1

Is the ECEC Relief Package payment amount accurately reflective of a service's total average revenue pre COVID-19, or post commencement of the Package where total care being provided exceeds that of the pre COVID-19 average? (Refer to consideration details provided under Process Stage 1).

☐ **YES** - Go to question 2.

☐ **NO** - You can apply for higher payment. Go to question 2.

QUESTION 2

Are your educators eligible for JobKeeper payments?

☐ **YES** - Go to question 3.

☐ **NO** - If educators within your service did not have an ABN before 12 March 2020, those educators should first apply for an ABN and provide the application to the service as supporting evidence for the service's application for a JobKeeper equivalent amount under the supplementary payment mechanism. Pending the eligibility under other JobKeeper criteria, the service should include an application for \$1,500 per educator that provides evidence of their ABN application as part of their supplementary payment application.

QUESTION 3

Is your service eligible for JobKeeper payments?

☐ **YES** - Go to question 4.

☐ **NO** - Include evidence of your ineligibility for JobKeeper payments in your application for supplementary payments and pending other JobKeeper eligibility criteria, apply a figure of \$1,500 for each ineligible staff member.

QUESTION 4

Since your initial application, has your service as a whole seen increased attendance levels not captured in previous applications?

☐ **YES** - Reapply for supplementary payments one month from the previous application date.

☐ **NO** - End.

CONSIDERATIONS REGARDING APPLICATION FOR SUPPLEMENTARY PAYMENT

Before making an application for supplementary payment and where a service makes a legitimate claim for a supplementary payment, and if the application is declined and services are reapplying, services may wish to consider the following information from the Department of Education, Skills and Employment in reviewing and resubmitting their application:

Invalid applications

Where there are errors in critical identification or registration details the department is unable to process the application. Invalid applications will be rejected and services will need to reapply to be considered for a supplementary payment.

Common errors include:

- Provider Customer Reference Number (CRN) and Service CRN used are the same, are not linked OR are entered incorrectly.
- PRODA ID used does not belong to the person completing the application OR has been entered incorrectly. The PRODA ID must be the ID of the person with management and control who is completing the application.
- Business or service registration IDs used have not been able to be verified.

Insufficient evidence

Applications that do not include enough evidence to support the claim will not be approved and services will need to reapply to be considered for a supplementary payment.

Common errors include:

- Not attaching evidence; evidence that is not linked to attendance; evidence that is not linked to hours of care provided in current period; evidence is about future demand not current hours of care; or claims for more children attending than are currently enrolled at a service.

All services must continue to record attendance for the children in their care. If a service is doing this through their third party software, the reports from this software

can be used as evidence. This would show the enrolment IDs, attended hours and session hours.

When preparing supporting documents, personal information including names and dates of birth must be redacted. Multiple attachments can be provided in a zip file.

Incorrect information

Where a service finds they have made a mistake on an application after it has been submitted, this cannot be corrected without submitting a new application. Corrections lodged via email cannot be considered.

Common errors include:

- Current number of children entered as a fortnightly figure rather than weekly.
- Current number of children taken from enrolment numbers not attendances.
- Current hours of care reflected as weekly figures rather than fortnightly.
- Current hours of care reflected as the difference between previous and current hours rather than total new hours of care.

If you review your initial application, make requisite adjustments and reapply yet still are unsuccessful please advise Family Day Care Australia at enquiries@fdca.com.au and provide relevant details.

DISBURSING SUPPLEMENTARY PAYMENTS

JobKeeper equivalent supplementary payments

Any JobKeeper equivalent supplementary payment **MUST BE PASSED ON IN FULL** to the educator or service staff member, in line with the legal obligation that governs the administration of the JobKeeper payment.

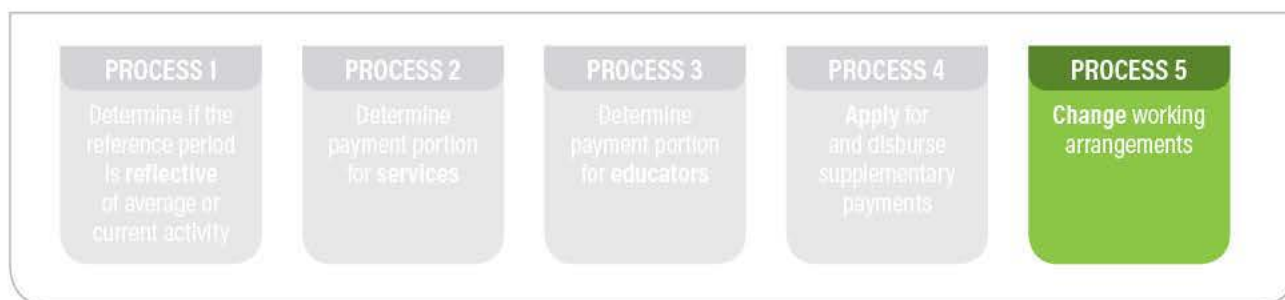
OTHER SUPPLEMENTARY PAYMENTS

Disbursing other supplementary payments should be based on the individual rationale for which the application was made. For example, if:

- The reference fortnight did not reflect the average revenue generated in the period utilised through Process Stage 1, the funds should be distributed equitably in line with guidance provided at Process Stage 3.
- Where care provided has increased post commencement of the ECEC Relief Package (for example, through increased enrolments, attendances, new educators etc.) the funds should be distributed proportionately to those educators that have increased their levels of care provision in line with guidance provided at Process Stage 3.

PROCESS 5

CHANGE WORKING ARRANGEMENTS



PROCESS OBJECTIVE

There will be circumstances where the combination of JobKeeper (or equivalent supplementary payment) and the ECEC Relief Package payment and other supplementary payments does not adequately account for, and hence remunerate, the levels of actual care being provided by some educators.

In such circumstances educators, services and families should work together to explore non-financial options that may minimise the impact on all parties.

For example, while services are required to prioritise care to children of essential workers, vulnerable and disadvantaged children and children with existing enrolments; services, educators and families may need to explore options to scale back the level of care being provided.

While under normal circumstances it may not be in the best interest of the child, there may, in some cases, be a practical capacity and a willingness on behalf of all parties to reallocate care provision across the service to assist in balancing care provision against remuneration.

It should be noted that services are not compelled to accept new enrolments or increase session lengths where parents request it – this is a business decision.

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TRANSITION PAYMENT PRACTICE GUIDANCE FOR FAMILY DAY CARE SERVICES

July 2020

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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.

FDCA would again like to express its sincere appreciation to Deloitte for expediting efforts to develop this guidance. Their expertise and the independent

perspective they have provided has been invaluable. For more information about this guidance document, please contact FDCA at enquiries@fdca.com.au.

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UNDERSTANDING THIS GUIDE



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.

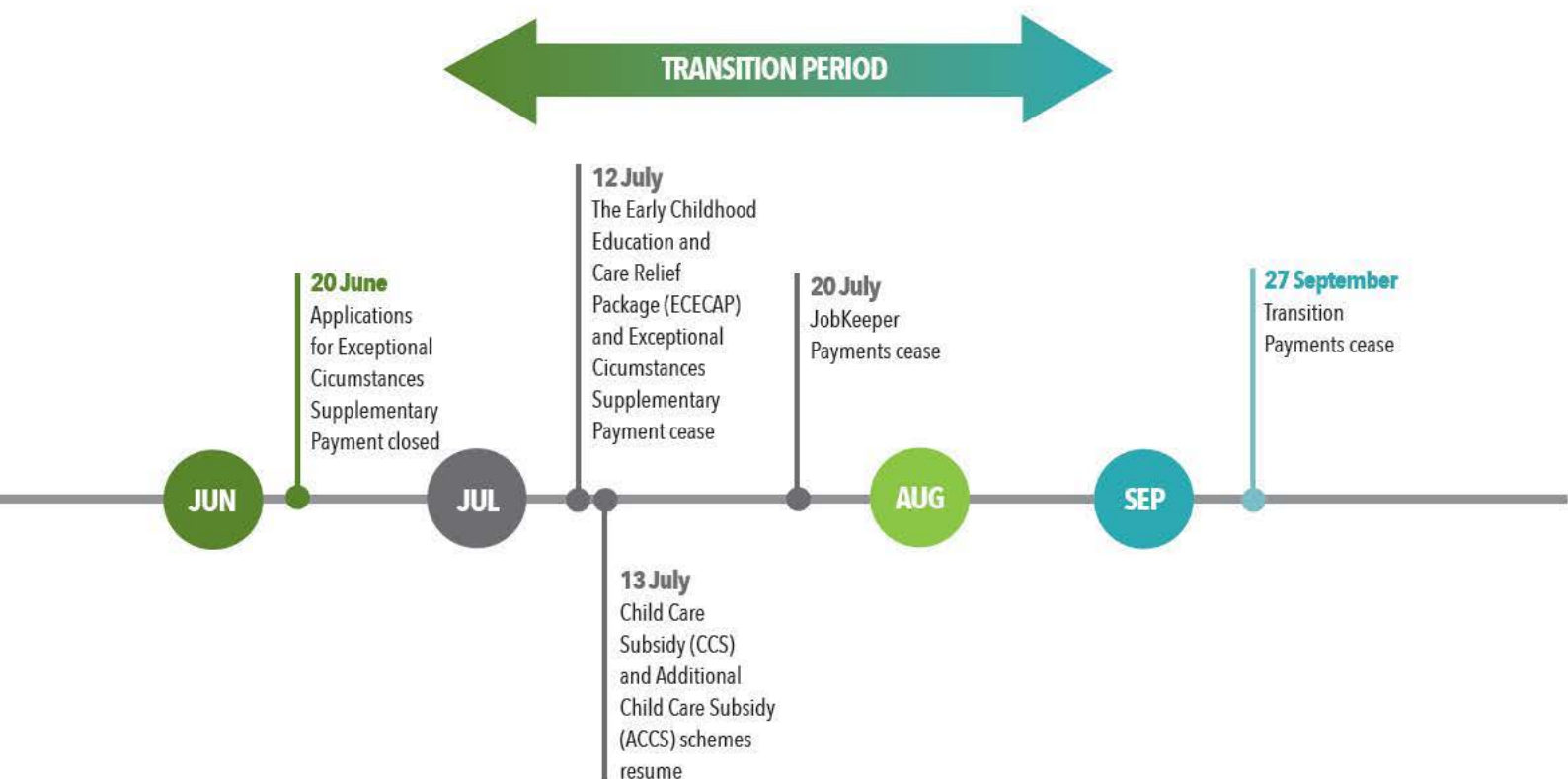
Principle 3

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

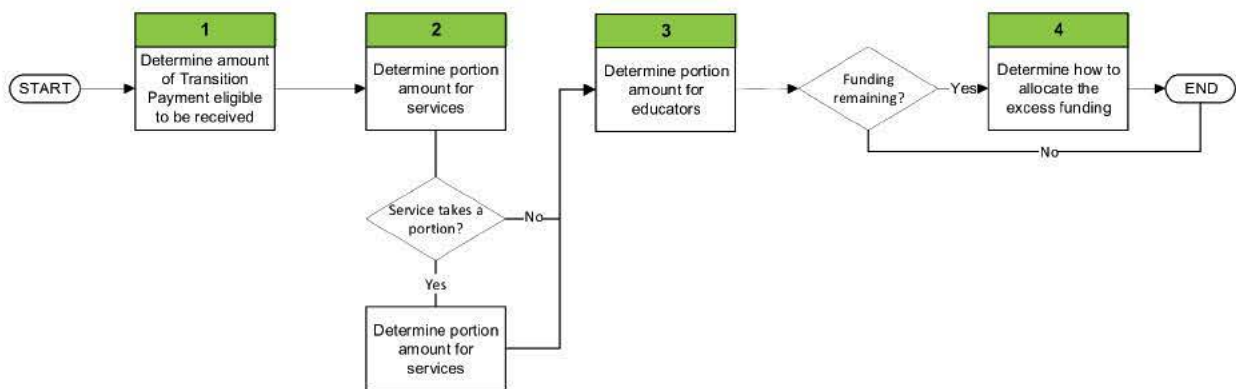
The timeline below illustrates some of the key dates to be aware of.



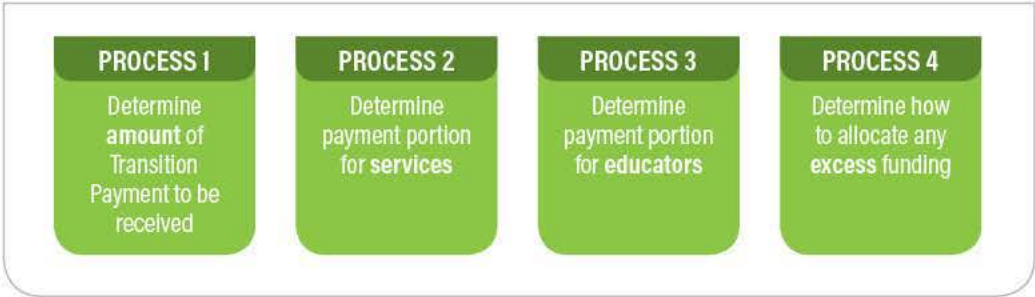
THE **PROCESS**



THE PROCESS

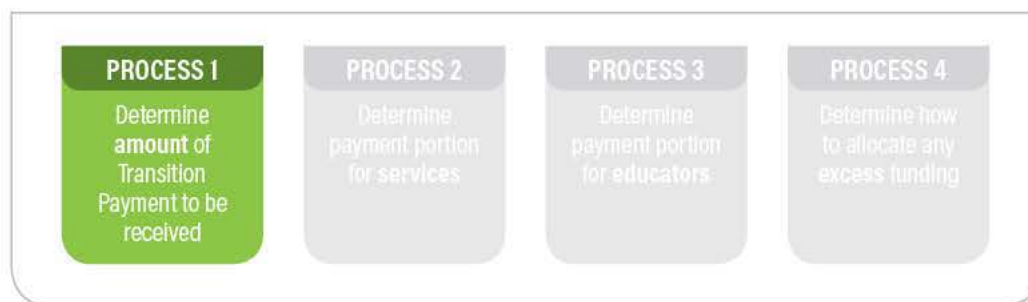


Each of the process stages are broken down into further detail to provide additional information in the relevant sections below. Notional examples are provided in each section to illustrate how services might work through each process.



PROCESS 1

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



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:

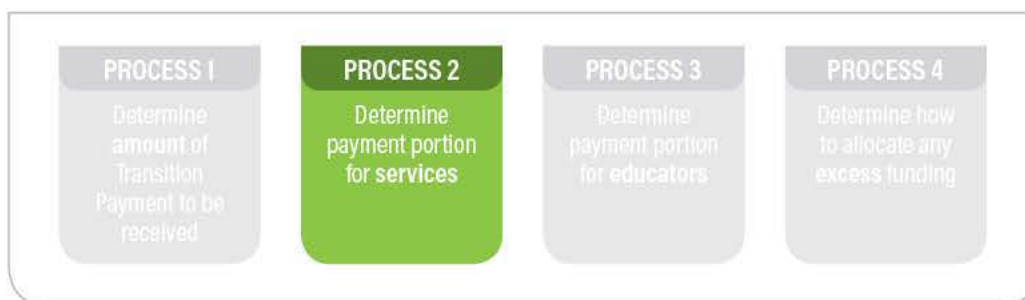
- The service must not receive JobKeeper on behalf of their employees working in the ECEC service from 20 July 2020 (or, if the provider is a sole trader, not receive JobKeeper for themselves). JobKeeper payments will cease from 20 July 2020 and be replaced by the Transition Payment.
- The service must 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 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.

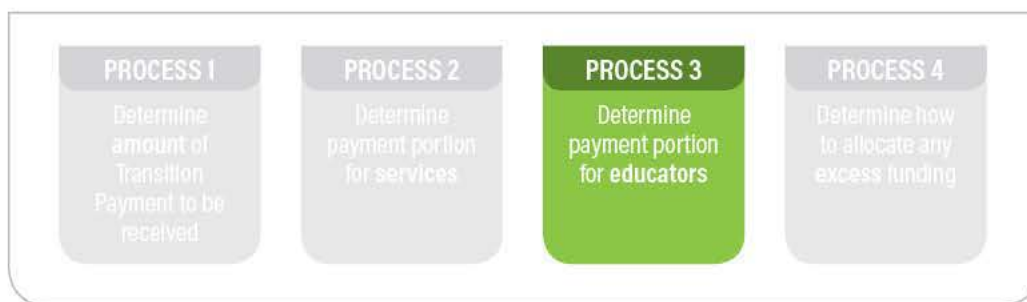
Option 1: The service makes a business decision to use a portion of the Transition Payment for itself to ensure short term business viability and/or pay service staff:

- 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 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:

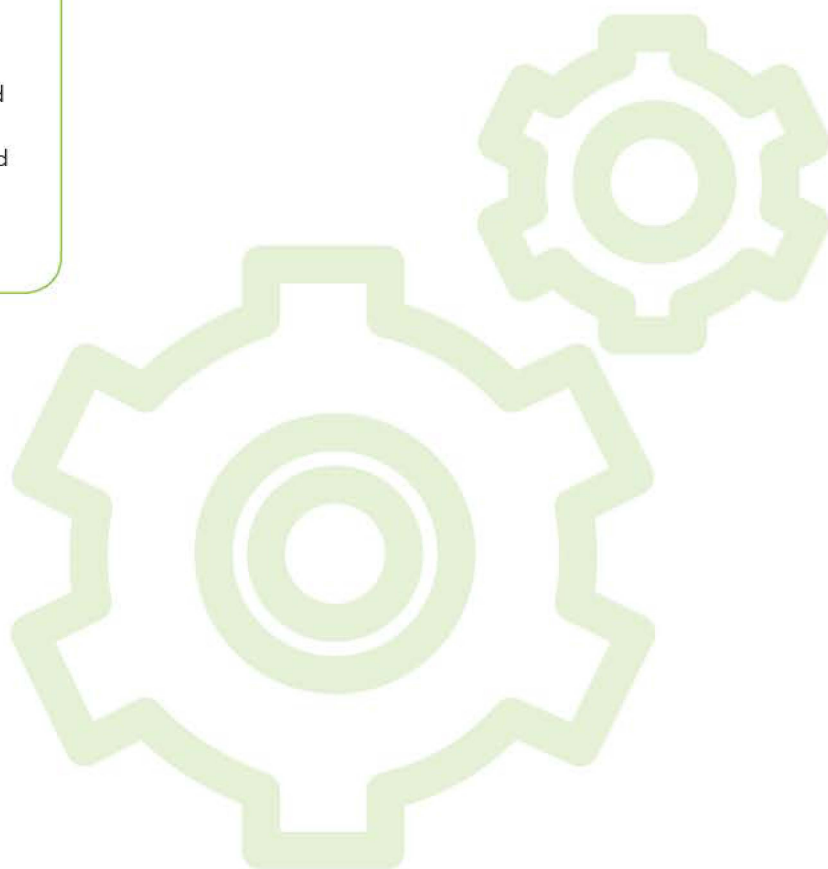
Example 3: Educator is unable to provide care due to forced closure

- 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

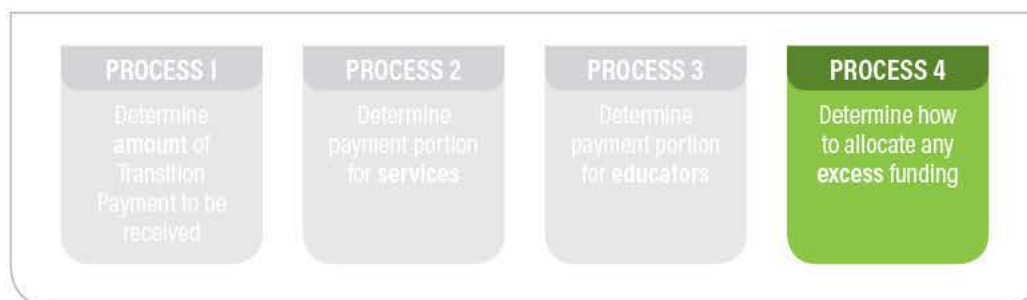
Example 4: Educator chooses not to work

- 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 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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