



RESPONSE TO THE SAVE OUR CENTRES GROUP

This document is supplied to the Save Our Centres group, in response to Council's resolution at the 8 November 2011 Council meeting:

That senior Council staff meet as a matter of urgency with representatives of the Save Our Centres group to provide a comprehensive briefing on the background analysis for Council's decision to cease its role in the provision of long day child care, and interested Councillors be invited to attend and further, information be presented on Council's website.

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1. EXECUTIVE SUMMARY

1.1 Review of children's services in Bayside

As part of its ongoing strategic planning, Council has recently reviewed its involvement in family and children's services, including: family day care; long day care; and kindergartens. Council takes its responsibility to plan and manage its resources to best serve families now and into the future seriously.

In reviewing these services, Council looked at the provision of children's services across the municipality, both those provided by Council, the community sector and private enterprises. An analysis of the financial viability and ongoing suitability of Council's own children's services infrastructure was also completed. Both these allowed for an assessment of what Council's priorities needed to be in terms of direct services to the community and where other providers are better placed to deliver services.

The review was undertaken in the context of Council's financial management imperatives and the need to make strategic and prudent financial decisions. Council has limited funding available within its Capital Works budget for new assets or upgrading existing ones. In addition, upcoming legislative changes to the children's services sector will increase the costs of providing child care, particularly in small centres such as those currently operated by Council in Sandringham and Hampton.

The term review refers to both to formal consultancies and continuous work conducted by Council officers. Detail about this work is found later in this paper.

The key elements arising from the review are:

1.2 Child care services in Bayside

- The two Council childcare centres were built and funded from generous capital and operational subsidies from the Federal government, when there were very few formal child care places available in the municipality. Capital subsidies and operational subsidies are no longer provided to the operators of centres. All child care centres are now funded directly through payments to families and Council receives no funding for the childcare centres.
- Council currently provides 80 out of the total of 1148 places in Bayside – just 7% of places. These places are currently subsidised by Council, with no means testing or allocation to parents from disadvantaged or in the low income bracket.
- 90% of families utilising places at Council's centres are mid to high-income earners who receive low child care rebates from the Federal Government.
- Council's current child care infrastructure is ageing and requires significant ongoing investment from Council to refurbish the centres and upgrade them so they are viable once new legislative changes come into force. There are limited options available for such expanded centres, requiring underground parking and two-storey centres to be of a size viable for long-term delivery (based on a centre of 92 places). Therefore, the investment required is an estimated \$5 to \$8 million.
- Council's fees for child care are slightly lower than those charged by most other providers and generate enough income to offset only the direct operational costs of the centres. They do not cover organisational costs such as IT and HR, management overheads or annual maintenance and renewal costs. The fees do not, and could not, cover the investment needed to upgrade infrastructure. These are already scheduled to

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increase from January 2012 by \$5-\$8 per day. In order to meet direct operational costs by 2016, in today's costs, has been estimated to require around \$25 or more per day.

- The introduction of the Children's Services Regulations 2009 and the National Quality Framework including the Proposed National Regulations will further increase the cost of Council providing child care services as they require higher staff to child ratios. This will have a significant impact due to the small size of the centres (35 and 45 place centres).
- The overwhelming majority of families in Bayside use other child care services, and the available child care places in our area is growing:
 - There are plans for other providers to open new centres in Bayside over the next 12 months.
 - A planning permit has been approved for 73 Wilson Street, Brighton to expand a centre next door to create 60 additional child care places.
 - A centre for 60 places at 173 Bluff Road, Black Rock has been partially constructed and is due to be opened in 2012.

1.3 Kindergarten services in Bayside

- Council currently provides around 50% of kindergarten places in the municipality (45% of four year old and 67% of three-year-old places) through its 14 facilities. Families in Bayside are therefore highly dependent on Council for the provision of kindergarten services.
- Many of these facilities are ageing, with four facilities having less than 10 years of useful life remaining (without major upgrades).
- The introduction of the COAG 15 hours Universal Access Policy in 2013 for three and four year olds will require significant investment in kindergarten facilities across the municipality to provide those places. This is because the policy will see a 50% increase in the minimum hours to be delivered.
- Local government has consistently provided support to community based kindergarten programs for many decades. Most programs were based historically on programs for four year olds, with many centres more recently recognising the importance of including three year old programs to assist in the early years development of children. In the past ten years, the community sector in particular has expanded its programs for three year olds. Unfortunately the government policy focuses only on four year olds places, which has the unintended consequence of placing these programs at risk.
- Preliminary planning shows that without significant investment, there is likely to be a reduction of up to 100 three-year-old and 42 four-year-old places across Bayside when the Universal Access policy is introduced.
- Council continues to work with the Department of Education and Early Childhood Development to assess the costs of implementing the Universal Access Policy and investigate Federal Government grants that may be available to assist (although they will be weighted to lower socio economic communities).

1.4 Options coming out of the review

The conclusions from the review alerted Council to the need to focus resources in the area where Bayside families most heavily rely on Council services, and to ensure that if Council is

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committed to children's services, those services must be of the highest quality, sustainable for future generations, and within the Council's financial capacity.

Significant investment will be needed to ensure that the Bayside community does not lose kindergarten places with the introduction of the Universal Access Policy and as a major provider of these places, it is sound strategy for Council to place its emphasis on these services.

1.5 Options presented to Council

In terms of process, the review resulted in three options being presented to Council to consider in managing its resource investment in long day child care services. These were:

- maintain current centres;
- full exit from child care services by December 2012 or a staged transition by December 2013; and
- consolidate early years services into a children's hub on Council land.

Council's decision to exit from the provision of child care and to close its two long day child care centres in Sandringham and Hampton was therefore based on the following factors:

- age and suitability of the existing buildings and the need for major capital investment to upgrade facilities;
- financial viability of the centres based on upcoming legislative changes and the competing demand for an investment to protect kindergarten places; and
- whether Council should be in the direct service provision of long day care given it provides a reducing proportion, currently 7% of places across the municipality, while it provides 45% of kindergarten places.

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2. DETAILED BACKGROUND

2.1 Review and processes undertaken

The review commenced with a study of the potential impact of closures of the ABC centres within the municipality of Bayside. Allen Consulting were engaged in 2009 to review current demand, supply and projected future need for child care services in Bayside. This review incorporated significant consultation with families, childcare providers across the municipality and a general survey. When the policy for an increase in kindergarten hours was announced Allen Consulting were engaged again, to assess the potential impact on kindergarten provision within the municipality. These two pieces of work were supplemented with internal assessments and ongoing engagement with service providers, through Council's Early Years Advisory Group, and regular contact with providers of child care and kindergarten services. In addition, another review was conducted by Council staff for the Department of Early Education and Childhood Development, to further assess the implications and assist community managed kindergartens to prepare for the 15 hours policy.

Council employs specialist early years professionals to undertake and provide advice on strategy in this area. These officers have provided input to, and assisted in the development of, the various aspects of the review. In addition, Council officers from the planning and infrastructure areas have provided advice on the capacity to manage, redevelop and plan for the buildings required for service delivery in the new policy context.

2.2 Changes to Federal Government operational subsidies

Federal Government operational subsidies provided to not for profit child care centres in the late 1980s and early 1990's are no longer provided. These subsidies were put in place to encourage more places for children under 3 years of age, as the cost of care was more expensive for these babies and children with higher staff to child ratios. As a result of a proliferation of private child care services in the late 1990's, the operational subsidies to not for profit centres were ceased, as they were seen to be creating an unfair commercial advantage.

The Federal Government also withdrew its cap on the number of child care places eligible for fee relief (Childcare Benefit) as part of its policy of child care being market driven. This has led to subsequent growth in the number of child care providers, with 18 child care providers other than Council in the municipality today.

2.3 Legislative changes to the child care sector

The recently implemented COAG National Early Years Reform Agenda aims to improve the quality of children's services by the development of a National Early Year's Learning Framework. This is a very positive step for the quality of care, but the more stringent National regulations and standards will have significant ramifications on staffing levels, qualifications and costs.

The Education and Care Services National Regulations will result in staff to child ratio changes for children less than three years of age by 2012 and for 3-5 years of age by 2016. For children under three years of age the staff: child ratios for Council's child care centres will change from one staff to five children (1:5) to one staff member to four children (1:4). This will significantly increase Council's costs, as staffing costs which are the highest

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operational input remain the same, while fees reduce due to fewer places. The total number of places will reduce from 80 to 72 in 2012 and reduce further to 65 places in 2016.

In 2012, given that the existing registered space can only accommodate up to 10 children in the 0-2 rooms in Hampton and Sandringham, Council will need to drop the number of children from 10 to 8 which means the loss of income from 4 places across both services.

In 2016, given that the existing registered space can only accommodate up to 15 children in the 4-5 room in Hampton and 25 in the 3-4 room in Sandringham, Council will need to either;

1. Drop the number of children in Hampton's 4-5 room to 11 and Sandringham's 3-4 room to 22, which means the loss of income of 7 places across both services; OR
2. Continue places for the same number of children, but employ an additional staff member, adding significant additional costs with no added income.

2.4 Council financial overview

Council has a total capital program of \$16.2 million which is composed of \$4.9 million in new/upgrade assets and \$11.3 million in renewal. "Renewal" refers to works required to keep assets in their current use and purpose, for example, repainting or replacing an existing kitchen cupboard. "Upgrade" refers to works which significantly improve an asset, for example, adding a room or completely refitting a kitchen. Because Bayside City Council has a high proportion of existing, older assets, a high proportion of its capital budget must be spent maintaining and renewing those assets for current purposes.

Currently, approximately 70% of the capital expenditure is expended on renewal and upgrade projects in the capital works program for 2011/12. (see Council's Long term Financial Plan).

With current debt levels and budget constraints, the current renewal backlog for works which cannot be completed each year, is approximately \$3-\$4M per year.

2.5 Council-managed child care centre costs for Hampton & Sandringham properties

Child care fees bring sufficient income to offset direct operational costs of the centres only, including the age specific costs for each age group. The fees do not cover other operational costs such as IT and HR services, payroll, maintenance and renewal to buildings. Fees are already scheduled to increase from January 2012 by \$5-\$8 per day, and would need to be increased by approximately \$25 per day in 2016 to offset the implementation of the National Childcare Regulations.

While all centres are required to meet the new policy and regulations, the current building constraints mean that without capital investment, the places able to be provided within Council centres will need to reduce, thereby increasing costs.

Components of Council contribution to expenditure:

- Indirect operational and administrative support costs (not specifically itemised, but including IT, HR payroll, professional development, management, supervision and so on)
- annual maintenance of approximately \$40K/annum

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- estimated average annual renewal costs of \$140K/annum (see attachment)

Therefore, at \$180K/annum, without incorporating indirect operational costs, Council is subsidising the current 80 places by \$2,250/annum. This subsidy will increase as places reduce (to 72 places in 2012; and 65 places in 2016).

(Note the figure in the Options table, for option one is based on figures for the 2011/12 year, where costs were slightly higher due to the replacement of the ceiling at the Sandringham Centre - \$2,430).

2.6 Bayside child care demand and supply

At the time of the report to Council, the Bayside municipality had 20 long day child care centres offering a total of 1,148 child care places. This number has now increased to 1,176. The profile of suppliers providing long day child care services in Bayside includes:

- 74% of places provided by private operators of child care centres,
- 7% of the long day child care places provided by Council operated child care centres (Hampton – 35 place and Sandringham – 45 place child care centres), and
- 19%, or 224 of the places provided by one community based child care centre and three not-for-profit centres owned by GoodStart, who purchased the three ABC centres and maintained their signage, being the ABC Brighton Junction, Brighton East and Beaumaris centres.

Based on analysis of demographic data, long day care future demand is expected to be relatively stable for the next 10 years.

Child care is increasingly being provided by the private sector and unmet demand is expected to be filled by this sector.

A planning permit has recently been approved for 73 Wilson Street, Brighton to expand a centre at an adjoining site, to create 60 additional child-care places. There is also an existing 2008 permit to build a centre for 60 places at 173 Bluff Road, Black Rock (the permit requires construction by 2012).

Analysis of local child care centre waiting lists suggests that higher numbers of families with children 0-3 years of age rather than 3-4 years of age are waiting for care. Three private child care centres in the municipality have reported vacancies for children aged from 0-5 years.

2.7 Child Care Fees

Child Care Fees in the municipality range from \$62.50 to \$111 per day. Council's child care fees are \$91 per day for children 0-3 years and 4-5 years of age; and \$86 per day for children 3-4 years of age. These fees bring sufficient income to offset direct operational costs of the centres only, including the age specific costs for each age group. The fees will be increased in January 2012 to \$99 for 0-3 year olds, \$92 for 3-4 year olds and \$96 for 4-5 year old children, due to the increased costs associated with implementing the State Government's Child Care Regulation changes. Fees would need to be increased by approximately \$25 per day in 2016 to offset the implementation of the National Childcare Regulations. The fees do not cover other operational costs such as IT and HR services, payroll, maintenance and renewal to buildings or management overheads.

The majority of families (90%) utilising Council's child care centres are high or medium income earners receiving low child care rebates from the Federal Government. Council

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does not target its service to particular families on the basis of income, as the Federal Government provides income support in the form of child care rebates to help families with the cost of care.

2.8 Kindergarten Services

Bayside City Council provides 14 facilities for community managed kindergarten services, enabling the provision of around 50% of kindergarten places in the municipality (45% of four year old and 67% of three-year-old places). Families in Bayside are therefore highly dependent on Council for the provision of kindergarten services.

In all, the Bayside municipality has 42 licensed kindergarten service providers, including community managed kindergarten (14 in Council and seven in church owned facilities); school-based early learning centres (8); and long day care centres (13 of 20), offering a total of 1,345 four year old funded places.

Bayside City Council has recently completed further planning on behalf of the Department of Education and Early Childhood (DEECD) Services, to determine if local child care and kindergarten services are able to implement the Federal and State Governments' 15 hours of Universal Access kindergarten policy by 2013. This is the next stage in planning and support for kindergarten service providers to implement the new policy. Council has been funded to continue this planning role over the next 12 months.

Preliminary planning results indicate that although the numbers of three year old and four year old kindergarten places currently meet demand, there could be a shortfall of up to 100 three year old places and 42 four year old places across the municipality with the introduction of the 15 hours of Universal Access policy. Additionally, approximately six kindergarten services operating in Council's kindergarten facilities have identified the need to expand or renovate in order to maintain the current number of three or four year old places required to implement the 15 hours of Universal Access policy. It has also been reported that the tenure of kindergarten in Church facilities may be uncertain, due to their own infrastructure issues. Council does not have available land or buildings suitable for the provision of additional kindergarten facilities to meet these needs or provide alternatives if church based kindergartens close (7 Church facilities currently offer 299 places in Brighton, two thirds of places in that municipality; and 147 places in Sandringham/Hampton/Highett and 23 in Beaumaris).

The results from recent planning show that the total number of places lost will be lower than the initial planning predicted in 2010. The Allen Consulting report at that time concluded that up to 477 places for three and four-year-olds would be lost. The changed estimate is due to a number of factors: three centres have received grants from the DEECD to upgrade their facilities, enabling the provision of more places by 2013; the early learning centres and long day care centres have started to offer more kindergarten places; and kindergarten committees have had more time to plan their response to the changes. While infrastructure investments will be required to meet a proportion of the need, some have been able to be addressed with programming changes.

As a result of the 15 hours of Universal Access Policy and the ageing kindergarten infrastructure, it is anticipated that Council will need to develop an investment strategy for its kindergartens or see places reduce in the next few years. Bayside's kindergarten facilities' are also ageing, with a number having 10 or less years of useful life remaining without undergoing significant renovations. A full report on kindergartens will be presented to Council on 29 November 2011.

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2.9 Options Presented to Council

Three broad options were identified for Council to consider in responding to the challenges in child care provision.

These were:

1. Maintain Council's current investment in the two long day child care centres;
2. Exit from the provision of child care; and
3. Consolidate services into new multi-service facilities (a hub).

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2.10 Summary of Options

Options	Advantages	Disadvantages
<p>1. Maintain current investment in the two long day child care centres</p>	<ul style="list-style-type: none"> • Small, high quality service maintained, highly valued by those who utilise these services. • Continuity of care over time for current children. 	<ul style="list-style-type: none"> • Council would incur an operating loss of \$158k per year. In addition capital works expenditure of up to \$145k is also likely to be incurred. Number of places will fall from 80 to 65 places in 2016. • Infrastructure is not fit for purpose and modification options are restricted. • Legislation changes resulting in reduced numbers of children and therefore reducing income and increasing overall cost. • Increased costs leading to potentially significantly increased fees. • High operating loss per child (\$2,430 per place), with no clear rationale for provision of service in total, or the selection of families who benefit. • Competing with the private sector and possible breaches of the National Competition Policy if fees are not increased. No rationale for rate subsidy is established.
<p>Summary</p>	<p>Financially unviable as infrastructure not fit for purpose and will not meet future demand. Council would either need to absorb the escalating costs or pass these onto service users.</p>	

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Options	Advantages	Disadvantages
<p>2. Exit</p> <p>a) Exit out of child care service provision from December 2012. Families notified by December 2011 and cease operations from end December 2012.</p>	<ul style="list-style-type: none"> • Current resources could be redirected towards upgrading kindergarten infrastructure and/or other Council priorities. 	<ul style="list-style-type: none"> • One off redundancy cost. • Community concern regarding ability to find alternative child care places.
<p>b) Staged transition out of child care from December 2011 to December 2013. Numbers of places gradually reduced to enable families to find alternative care. Cease operations from Hampton Child Care Centre by December 2012 and Sandringham Child Care Centre by December 2013. Timelines outlined below.</p>	<ul style="list-style-type: none"> • Staged reduction in places would provide additional time for the market to respond and families to find alternative child care. Demonstrates Council is managing the impact thoughtfully and not creating a sudden large unexpected demand for places. Considerate of family's needs. • Potentially resources may become available for redirection towards upgrading kindergarten infrastructure or other Council priorities in each of two years – 2012/13 and 2013/14. • Some reduction in staff redundancies compared to a non-staged withdrawal. 	<ul style="list-style-type: none"> • Redundancy costs. • Some community concern regarding ability to find alternative child care places, but better managed through phased impact. • Managing operating budgets will be more challenging as it will be difficult to determine when staff and families will exit post announcement. This may result in increased short term operating costs. • May be difficult to close one centre and redirect all families to the other centre.
<p>Summary</p>	<p>Exit from Child Care would provide Council with opportunity to consolidate its resources in early year's education and redirect financial resources to the kindergarten area. Option 2b would enable families to have more time to find alternative child care and reduce redundancy costs.</p>	
<p>Proposed Timelines for Option 2b - Bayside City Council's Child Care Centre Closures</p> <p>Initial assessment of 2011 enrolments suggest it would be possible to close the Hampton Child Care Centre by end December 2012 and the Sandringham Child Care Centre by end December 2013. The proposed timelines have been determined by examining the vacancies created in each centre at the commencement of each calendar year, as children move into the older age group rooms or transition into school. These proposed timelines may vary as some families may exit earlier than anticipated. Hampton child care staff</p>		

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working in the 0-2 year old room would be redeployed to fill staff vacancies in January 2012.

Hampton Child Care Centre		Sandringham Child Care Centre	
Age Group Room	Closure Date	Age Group Room	Closure Date
0-2	December 2011	0-2	December 2012
2-3	December 2012	2-3	December 2013
4-5	December 2012	3-4	December 2013

Options	Advantages	Disadvantages
<p>3. Consolidate early year's services in a Children's Hub on Council's land.</p>	<ul style="list-style-type: none"> • Elimination of annual operating deficit of \$158k. • Families could access a range of early year's services in one facility. 	<ul style="list-style-type: none"> • Five sites were assessed, with only two being suitable. The two sites are Fern Street Black Rock, or the Sandringham ILU and child care centre sites (combined). • On those sites Council would need to contribute \$5M and \$8M towards the cost of building these facilities. The high cost of building a Hub on these sites is related to small land size and the need to provide underground car parking. • If the Hub was located on the Sandringham Child Care Centre site, staff redundancy costs would be required, as the centre would need to close during construction. • State or Federal Government grants are not currently available for such developments. • Demand is uncertain for a 92 place child care centre, given vacancies in other centres in the municipality. Vacancies would compromise the financial viability of the Hub.
Summary	<p>The cost of building the new Children's Hub on Council land would require between \$5-8M and no grants are currently available for this purpose. Council has limited sites available to build a Children's Hub. The Sandringham site option has sensitive neighbouring interfaces and would trigger staff redundancies costs.</p>	

3. ATTACHMENTS

1. Long term financial management plan.
2. Current EBA
3. Renewal schedule