

Using funding to set and reduce fees

Some of the questions that Preschool Growth Program Project Officers are reporting as the most common from preschools include:

- **How much does Community Services (DoCS) expect in fee reduction?**
- **How do we use the additional funding we received from last year to set and reduce fees?**
- **How do we calculate the amount that fees for children from ATSI and low income families should be reduced?**
- **How do we allow for equity and practical considerations when reducing our fees?**

This fact sheet attempts to answer some of these questions. Preschools should be aware though, that how you set your fees, and the level you set them at is up to you. There are no rules from Community Services on what you must do in relation to fees. How you set fees will ultimately depend on the characteristics of your community and your individual service's needs.

If your preschool is currently maintained at 2008/09 funding levels, this method of fee calculation will not apply to your service. You will need to make calculations based on your maintained level of funding, not on figures from the RAM calculator.

How much does Community Services expect in fee reduction?

Community Services sent a letter to all preschools notifying them of the funding increases in July 2009. It said in part:

"The funding received for Aboriginal and Torres Strait Islander children and children from low income families must be used to reduce fees and barriers for children of those families. Monitoring will be introduced to ensure that the funding increases flow through to families as reduced fees".

Therefore, preschools need to show that fees for children from low income and ATSI families are lower than general fees. Appropriate evidence would be fee schedules from 2008, 2009 and 2010. Ideally, Community Services would also like to see some fee reduction across the board as a result of the increase in recurrent funding preschools received this financial year.

How do we use the increased funding to set and reduce fees?

To calculate fees, preschools need to know what their annual expenses are and what their annual income through funding is. The difference between these two amounts is the amount of money you need to collect through fees! If you are uncertain what your funding from Community Services is, or will be from July 2010, use the RAM calculator on the Community Services website to calculate it. There is a link to this on the Preschool Growth Program website at www.cccnsw.org.au/preschoolgrowth

Remember, if your preschool has enrolments AT or ABOVE their funding cap, funding is calculated using the capped number. If a Preschool is enrolled BELOW its cap; funding is calculated using ACTUAL enrolment numbers as reported in the Annual Reporting Data (previously ASPARD).

How do we calculate the amount that fees for children from ATSI and low income families should be reduced?

There are many different ways of doing this. This fact sheet presents one method of calculating these fees, based on

the difference between the base local government area (LGA) rate and the base rate of funding you receive for a child from an ATSI family (\$3,300 per annum) or low income family (\$3,000 per annum). Using our calculation

method, when calculating your general daily fee use ONLY your LGA base rate and NOT the replacement base ATSI or low income rate. If these rates are included, general daily fees will not calculate accurately.

FEE CALCULATION TABLE

Example Preschool is licensed for 20 places per day across a 5 day week and a 40 week year. There are 55 children enrolled across each week and the funding for the preschool is capped at 40 with an LGA base rate of \$2,364. This preschool receives other income from other sources and this has been included in the total income amount.

Example Preschool

Total Expenses (from Budget)		\$230,000
		<i>MINUS</i>
Income:		
RAM (40 x LGA rate) 40 x \$2,364 <i>NB: Do NOT calculate ATSI or low income base rates in at this point - ONLY use LGA base rates for EVERY child.</i>	\$94,560	
SCAN/ISP/Recurrent grants/other	\$35,460	
Total Income		\$130,020
		<i>EQUALS</i>
Annual Fee Revenue Required (Expenses MINUS Total Income)		\$99,980
		Fees raised <u>MUST</u> meet or exceed above amount
General Daily Fees General Daily Fees = Annual fees ÷ (License places* x days open x weeks open) <i>* Where a Preschool is enrolled under cap and open 5 days, use the total number enrolled divided by two instead of licensed places</i>	$\$99,980 \div (20 \times 5 \times 40)$ $\$99,980 \div 4,000 = \25	\$25 General Daily Fees
Fees for children from ATSI families		?
Fees for children from low income families		?

Note: Where a preschool is open for less than five days and enrolled under cap, this calculation is not valid. We recommend you contact a project officer to request finance support.

How we arrived at these calculations

Finding a workable solution for arriving at the figures in the table was highly complex. We worked intensively experimenting with the RAM funding calculator and drawing on the experience that our Project Officers have in fee setting for their own preschools. We found that we had to use the RAM funding calculator differently in order to establish a general daily fee and then calculate the reduced fees for children from ATSI and low income families, as including these children when calculating the general daily fee in the RAM calculator makes fee setting problematic.

So, when we calculated the general daily fee we went to the RAM calculator and worked out how much funding the preschool would be eligible for in **LGA base rate funding ONLY** for every child enrolled up to the cap (your utilisation rate). If the preschool attracted CALD, remote or mobile loading this IS included in the RAM calculator when calculating general daily fees. These loadings relate to service operations, NOT the direct reduction of fees. An example includes where expenses are costed against these loadings, for example additional staffing or resources against the CALD loading.

Note! DO NOT include ATSI or low income base rate amounts into general daily fee calculations. Each and every child enrolled up to the cap, regardless of their characteristics, should be counted as the base rate only. The difference between the base LGA rate and the replacement base rate for children from ATSI and Low Income families is used to discount their fees AFTER you have worked out the general daily fee.

Once we determined the RAM funding amount based on the general daily fee, we then looked at how we could reduce fees for children from ATSI and low income families. We considered how we could apply the funding equitably for these children, without burdening families paying the general daily fee.

Calculating fees for children from ATSI families

Under the RAM funding formula, an ATSI base rate replaces the LGA base rate. If this preschool were to enrol children from an ATSI family, a simple calculation would need to be applied.

Work out the difference between the ATSI base rate (\$3,300) and base funding amount for this LGA (\$2,364),

which is \$936. For a one-day attendance, the yearly ATSI subsidy would be $\$936 \div 2.5 = \374.40 per year (on a one-day attendance).

Fees for children from ATSI families at Example Preschool		
Yearly ATSI Subsidy = (\$3,300 – LGA base rate)	\$3,300 – \$2,364	= \$936
Daily ATSI Subsidy = (Yearly ATSI Subsidy ÷ 2.5)	\$936 ÷ 2.5	= \$374.40 per year (on a one-day attendance)

A child from an ATSI family attending 2 days

2 x full general yearly fee of \$1,000**	=	\$2,000
<u>MINUS</u> 2 x yearly subsidy of \$374.40	=	\$748.80
Equals ATSI yearly subsidy		\$1,251.20 per year
Therefore, ATSI daily fee	=	ATSI yearly subsidy ÷ 80
		\$1,251.20 ÷ 80 (attending 80 days in a 40-week year)
	=	\$15.64 ATSI daily fee

A child from an ATSI family attending 3 days

3 x full general yearly fee of \$1,000**	=	\$3,000
<u>MINUS</u> full yearly subsidy of \$936*	=	\$2,064 ATSI yearly subsidy
Therefore, ATSI daily fee	=	\$2,064 ÷ 120 (attending 120 days in a 40-week year)
	=	\$17.20* ATSI daily fee

So, how much would you charge for a child attending from an ATSI family? Most preschools will decide on an amount that is rounded up or down to a whole dollar amount. In this example we wanted to set one fee for all children from ATSI families, so given that the general daily fee is \$25 a reduced daily fee for these families could be in the range of \$16–18 per day.

Calculating fees for children from Low Income families

Like the ATSI base rate, RAM funding calculates the low income base rate in place of the LGA base rate. If this preschool were to enrol children from a low income family the same simple calculation outlined above would apply, working out the difference between low income subsidy

(\$3,000 per child) and base funding amount for this LGA (\$2,364) which is \$636. For a one-day attendance the yearly low income subsidy would be $\$636 \div 2.5 = \254.40 per year (on a one-day attendance).

Fees for children from Low Income families at Example Preschool		
Yearly Low Income Subsidy = (\$3,000 – LGA base rate amount)	\$3,000 – \$2,364	= \$636
Daily Low Income Subsidy = (Yearly L.I. Subsidy ÷ 2.5)	$\$636 \div 2.5$	= \$254.40 per year (on a one-day attendance)

A child from a Low Income family attending 2 days

2 x full general yearly fee of \$1,000**	=	\$2,000
<u>MINUS</u> 2 x yearly subsidy of \$254.40	=	\$508.80
Equals low income yearly subsidy		\$1,491.20 per year
Therefore, low income daily fee	=	low income yearly subsidy ÷ 80 $\$1,491.20 \div 80$ (attending 80 days in a 40-week year)
	=	\$18.64 Low Income daily fee

A child from a Low Income family attending 3 days

3 x full general yearly fee of \$1,000**	=	\$3,000
<u>MINUS</u> full yearly subsidy of \$636*	=	\$2,364 yearly low income subsidy
Therefore, low income daily fee	=	$\$2,364 \div 120$ (attending 120 days in a 40-week year)
	=	\$19.70* Low Income daily fee

So, how much would you charge for a child attending from a low income family? Like the reduced fees for children from ATSI families rounding to a whole dollar amount is advisable. In setting one fee for all children from low income families, a reduced daily fee would be in the range of \$19–\$20 per day in this example.

How does it all come together?

If the preschool in our example had one child enrolled from an ATSI family paying \$18 a day across a three day

week this child would attend a total of 120 days per year and the fee income generated would be \$2,160 yearly. **This child would attract an additional \$936 in RAM funding across the year.**

With another child enrolled from a low income family paying \$19 a day across a two day week and attending a total of 80 days per year the fee income generated would be \$1,520 yearly. **This child would attract an additional \$636 in RAM funding across the year.**

Note:

*RAM funding is calculated on children attending 15 hours a week or 2.5 days. In this example the maximum subsidy able to be applied to reduce fees for ATSI enrolments is \$936 per annum and \$636 per annum for low income enrolments. For enrolments over 2.5 days the ATSI and low income subsidies will remain the same. Should a preschool choose to enrol children for four and five days these calculations will not be applicable as RAM income may be significantly impacted. Use the RAM calculator wisely.

** Full general yearly fee is calculated at general daily fee x number of weeks open. For Example Preschool this is $\$25 \times 40 = \$1,000$. This is the amount of general daily fees for a one-day attendance across the year.

Always keep a close watch on the number of children from ATSI or low income families that your preschool has budgeted for versus the actual attendances you are receiving fees for.

Where preschool is open only three days

If the preschool in this example were to operate just three days a week their overall RAM would be impacted. The base LGA rate RAM funding across three days would be \$56,736 instead of \$94,560, with variable levels of other income and expenses. These factors need to be taken into account when calculating the daily fees.

Where a preschool is enrolled under cap

If this preschool has children enrolled under cap, this will impact on the base LGA RAM funding. As an example, if this preschool were to enrol only 34 children across a five-day week with a cap of 40, RAM base LGA rate funding would be \$80,376 instead of \$94,560 when enrolled

to cap. These factors will need to be taken into account when calculating daily fees.

Public holidays

When calculating your general daily fee keep in mind public holidays and other days where fees may not be charged, as this will impact on the amount of income you will need to cover your expenses. In the case of Example Preschool for one public holiday in this 20 place centre where fees are not collected the impact will be \$500 less received in fees for just one day a year.

How do we allow for equity and practical considerations when reducing our fees?

Once you have made these calculations, you then need to consider a range of practical considerations and equity issues.

For example:


- Do you know your funding cap and your LGA rate?
- Do you need to round your fees up to a whole dollar amount?
- Should you reduce the fees for children from ATSI and low income families even more to encourage enrolments from these groups?
- If you do reduce fees, will this be too much of a burden for other families? (reducing these fees more can only be done by increasing your general fee.)
- Are you passing on the full subsidy you receive for children from ATSI and low income families? If you are costing the reduction across every day you are open, and your children from ATSI and low income families only come one or two days then you may not be using the full subsidy to reduce fees.
- Are your low income and ATSI fees sustainable if enrolment from these groups increases dramatically?
- What sort of proof are you going to ask of families about their low income or ATSI status?
- Community Services have said they would like to see some reduction in fees across the board. Are your 2010 fees lower than 2009? Can you maintain this rate next year?
- When estimating fee income are you taking into account your preschool's average utilisation (number enrolled up to cap) rates?
- Are there days where fees are not charged, such as public holidays and staff-only days?
- Have you included funding from other sources such as SCAN in your income AND expense calculations or not?

- Are your estimated expenses realistically calculated and in line with previous years expenditure and budgeted costs?
- Have you gotten rid of the old funding tiers? You can keep these if you want, but most preschools are moving to a flatter fee structure with less variations in fees.
- What is best in a 'business' sense? (i.e. what will ensure you can keep your utilisation levels high, and give you breakeven income and expenditure or better?)
- What is fair or equitable (e.g. do you have a lot of families that would just miss the low income limit and therefore would not be able to afford preschool, or may only be able to afford one day)?
- Are you aware of the income levels for a low income health care card? To qualify for a low income health care card, currently, you must have income below \$787 per week if you are a single parent or \$753 per week if you are a couple. For each additional child you can earn an extra \$34 per week. This basically makes it \$41,000 per year or \$41,000 + \$1,700 for each additional child (as at February 2010 – refer to the Centrelink website for updates).

Please remember, how you set your fees is up to your preschool, taking your circumstances and community needs into account. The only MUST DOs are:

- You must show that your fees for children from ATSI and low income families are lower than your general fees.
- In accepting the funding for children from families of low income, you are required to keep evidence of low income. Preschools should ask families to provide a copy of their low income health care card, which is seen as a universal indicator of disadvantage. Other forms of documentation that services can accept as evidence of low income are:
 - pensioner concession card,
 - Department of Veteran's Affairs Gold Card,
 - Visa 447, 451, 785 or 786 (temporary resident visas for humanitarian or protection reasons).
 Please note that health care cards provided for children with disabilities are not means tested and, therefore, do not constitute evidence of low income (Source: Community Services FAQ, 30 July 2009).
- Remember that reduced fees for ATSI families are reliant on the families self-identifying.

YOUR PRESCHOOL CALCULATION TABLE Use this table to calculate your fees.

Total Expenses (from Budget)		\$	
Income:			
RAM (Cap x LGA rate)			MINUS 
$\text{ } \times \$ \text{ } =$ <small>NB: Do NOT calculate ATSI or low income base rates in at this rate – ONLY use LGA base rates for EVERY child.</small>	\$		
SCAN/ISP/Recurrent grants/other	\$		
Total Income		\$	
			EQUALS
Annual Fee Revenue Required (Expenses MINUS Total Income)		\$	
			Fees raised MUST meet or exceed above amount
General Daily Fees General Daily Fees =	$\$ \div (\text{ } \times \text{ } \times \text{ })$ $\$ \div \text{ } = \$$		
<small>Annual fees ÷ (License places* x days open x weeks open)</small> <small>* Where a Preschool is open for five days and enrolled under cap, use the total number enrolled divided by two instead of licensed places</small>		\$	
Fees for children from ATSI families			
Yearly ATSI Subsidy per child = \$3,300 – LGA base rate	\$3,300 – \$		
Daily ATSI Subsidy per child = Yearly ATSI Subsidy ÷ 2.5	\$ ÷ 2.5	\$	per year (on a one-day attendance)
Fees for children from low income families			
Yearly low income Subsidy = \$3,000 – LGA base rate amount	\$3,000 – \$		
Daily low income Subsidy per child = Yearly low income Subsidy ÷ 2.5	\$ ÷ 2.5	\$	per year (on a one-day attendance)

For more information: See www.cccnsw.org.au/preschoolgrowth or email your Preschool Growth Program Project Officer.

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