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Doing the Sums

Executive Summary
September 2016



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EXECUTIVE SUMMARY

Early Childhood Ireland (ECI) is the representative and support body for the early childhood care and education (ECE) sector in Ireland. We have over 3,600 childcare members who support over 100,000 children and their families through preschool, full day care and School Age Childcare nationwide. Our work includes quality enhancement, publications, advocacy, training, business support and information for a sector that employs 25,000 people. The best interests of the child is of utmost importance to ECI and we work to ensure that all children are thriving and learning in quality early childhood settings.

ECI's policy and advocacy work is underpinned by the belief that: quality for children; sustainability for both childcare services and their staff; and affordability for parents are the three essential, interconnected pillars of a robust, functioning and desirable ECE system.

Many children, particularly under 3s are looked after in the informal and largely unregulated childminding sector where the cost of care is lower but where there is no oversight or inspection of quality for children. However, for the purpose of this report, the term 'childcare' is used to denote the provision of ECE in formal, centre-based pre-school and afterschool services run by both community organisations and private providers.

ECI is acutely aware that the cost of childcare is unaffordable for many parents and with ever increasing housing and rental costs, many families are struggling to cope. The sector is beset by a number of interrelated challenges. Well qualified staff are essential to the delivery of a quality ECE service for children. The increasing difficulty faced by providers in retaining and recruiting well qualified staff will not be resolved without dealing with the low pay and poor conditions in the sector. Low pay cannot be addressed without proper funding that also supports sustainable business models for childcare provision. The viability of services depends on such funding and ultimately, there can be no positive progression in any of these areas without significant investment by Government.

Since the early 2000s, there has been a concerted and welcome focus within the childcare sector on quality childcare provision and positive outcomes for children. The introduction of Aistear and Síolta as the two key curriculum and quality frameworks underpinning early childhood education, the Tusla Early Years (Pre-School) Inspectorate, and the Early Years Education-Focused Inspection (EYEI) by the Department of Education and Skills have greatly improved the quality and consistency of childcare practices. The most recent Regulations in 2016¹ introduced minimum levels of qualifications, QQI Level 5, for all members of staff working directly with children. As a result, the sector is becoming increasingly professionalised, which is welcome since the workforce is one of the most influential determinants

1 The Child Care Act 1991 (Early Years Services)(Amendments) Regulations 2016

of quality in childcare.² However, with only 18% of educators working in Ireland's childcare sector currently holding a degree at Level 7/8 in early childhood education and care³, we are still a long way off achieving the EU recommended (2011) 60% graduate-led ECE workforce by 2025⁴.

While there has been widespread discussion about the implementation of quality practices in childcare services, there has been relatively little research regarding the actual financial cost of running such services. It is against this backdrop that ECI commissioned Meehan Tully & Associates Ltd. to research the viability of various childcare financial models in Ireland, including community, private, rural, urban, part-time and full-time services. The aim of the research was to examine whether it is possible to operate a viable childcare service that: operates within the confines of the existing funding models; supports professional development for owners, managers and staff; and provides a career pathway for those working in the sector.

The research addressed these considerations by scoping out the costs involved in running childcare services, of varying operational sizes, and asking:

- How much does it cost to employ staff?
- What are the average overheads for a childcare service?
- If staff costs increased what would be the impact on viability of childcare services?
- What level of income, and funding, is required to support a viable and sustainable childcare service?

Based on these questions, conclusions were drawn about the ability of childcare financial models to meet the expectations, requirements and future developments of the childcare sector, particularly regarding the impact of staff costs upon the services. The main findings of the Report can be summarised as follows:

- **The average childcare service in Ireland, whether private or community, urban or rural, operates on a breakeven basis.** Having calculated the average costs for the various childcare financial models considered by the research and comparing these costs with the fee levels reported by Pobal, the research found that the average childcare service in Ireland operates on a breakeven basis. Even when a surplus is generated by a childcare facility, it is often too little to meet the cost of re-investment, which will be required at various stages of the business, including for maintenance, building improvements and replacing equipment. For example, based on the Report's working examples, the average community childcare facility providing a 39-45 week service in an urban setting had an end of year reserve of only €5,826 and the average privately owned service offering a 38 week programme in a rural setting had a reserve of just €1,651. While a small number of childcare services manage to generate relatively high surpluses, they are the exception within the sector and tend to be based within large urban settings.
- **Salaries and wages are, by far, the most significant daily operational costs facing a childcare service.** The wage bill for larger childcare services can reach up to 80% of total operational costs. However, while wages represent the largest proportion of costs, the actual hourly wages paid to staff are markedly low. The average Early Years Educator in Ireland earns just €11.12 per hour, well below the Living Wage. The Living Wage is the average hourly gross salary required by a single individual (without dependents) in full-time employment to afford a socially acceptable minimum standard of living across Ireland. In 2016, the Living Wage was €11.50 per hour. The situation for Early Years Educators is more serious still when you consider that many have one or more dependents, many are working part-time hours and on 38-week contracts, and many rely on social welfare payments over the summer months.

2 CoRe Report of the European Commission (2011).

3 Pobal Early Years Sector Profile 2015-2016, p.79.

4 Joint Oireachtas Committee on Health and Children (January, 2016) 'Report on Affordable and Quality Childcare.' p.25.

- The State's focus on the Early Childhood Care and Education (ECCE) programme is exacerbating the difficulties faced by providers in the sustainable delivery of non-ECCE childcare services and is pushing many services towards an ECCE-only model.** The Early Childhood Care and Education (ECCE) programme receives by far the largest proportion of State funding of all care and education programmes in the early years sector. In 2015, State spending on childcare was approximately €260 million of which €175 million, or 67%, went into funding ECCE.⁵ While imperfect, ECCE has been a positive and welcome initiative in Irish childcare that should be built upon. However, its success has come at the expense of the non-ECCE services in terms of focus, investment and the consequent financial viability of wider childcare services. Despite the low capitation rates paid under ECCE, Baby and Toddler Rooms, in general, still cannot compete with the predictability and dependability of the revenue stream produced by an ECCE Room. The findings of this Report clearly show a trend for providers towards an ECCE-only model, alongside School Age Childcare, as a means of maintaining their viability. This has led to a reduction in the provision of non-ECCE childcare, such as year round full daycare and care for the under 3s. As it stands, for the majority of childcare services, full day care represents a very small portion of the overall number of children in the service. Rather, the number of children enrolled in ECCE represents a very significant proportion of the overall numbers in ECE and this is set to increase as the ECCE programme is extended over 2016-2017. If left unchecked, non-ECCE services may be further reduced, or removed entirely, while the retention of highly qualified staff capable of satisfying the regulatory requirements for the sector will become increasingly difficult as the 38-week/part-time childcare model becomes the norm.
- The unsustainability of the current ECCE capitation rates.** The introduction of the ECCE programme has been a positive development within the sector, improving occupancy and giving services access to a regular and dependable revenue stream. However, with standard and higher capitation rates of €64.50 and €75 per child per week respectively, ECCE is not adequately funded to provide a decent income for the majority of providers and staff. In the words of one provider "we cannot afford to run our ECCE with the new requirements. We struggle as it is to pay wages at €9.50 per hour, qualified staff are harder to attract and to put on a second ECCE year means we need more qualified staff. The capitation needs to increase significantly."
- Impact of wage changes on ECCE capitation rates.** The Report found, using the example of an average ECCE Room in a privately owned urban service on the higher capitation rate, that in order for Room Leaders to be paid the average educational wage of €33.90, the ECCE rate would need to increase to €119.86. To raise childcare staff's average hourly rate above the Living Wage of €11.50, thus requiring an increase of 30% for Room Leaders and 20% for Early Years Educators, the ECCE rate would need to increase to €80.71. Or, to support the cost of employing staff at their current wage levels for 52 weeks, whilst maintaining delivery of the 38 week programme, the ECCE rate would need to increase to €83.39.
- There are many differences between urban and rural-based services, which lead to higher costs for those in urban settings.** For example, urban-based services tend to be larger than rural-based services, requiring a larger building and the higher costs that ensue, such as higher rent, rates, insurance, maintenance, light and heat. These differences can lead to higher fees being charged for childcare, without necessarily increasing any surplus of income over expenditure for the childcare service. For some of the larger services that operate as franchises, there are additional costs to be borne by the service, including the cost of the franchise itself.
- Privately owned services incur certain costs that do not apply to or are lower in community services.** The most significant are rents, which increase significantly for larger services in urban settings, and commercial rates, which are paid exclusively by privately owned services operating outside the ECCE-only model. Of the respondents who reported paying commercial rates, the report found that services in urban settings pay an average of €4,885 with the rates ranging from €100 to €24,000 and in rural settings services pay an average of €3,690 with the rates ranging from €300 to €10,000.

5 Report of Inter-Departmental Working Group: Future Investment in Childcare in Ireland (2015). p. 27.

- **Of particular concern within privately owned childcare facilities is the tendency for many owner/managers to use their own salaries to supplement the operational costs of their businesses.** According to one provider “we are finding costs are increasing such as light, heat, rates, wages but we are unable to pass these costs on to parents and therefore the only way to continue to operate the crèche is to take less and less of a salary as the owner.” This may, on the face of it, facilitate the short term survival of the business, but it is an artificial scenario that does not reflect the true cost of running the childcare service and is certainly not sustainable as a good business model.

At the centre of all considerations about the provision of quality childcare is the best interests and experience of the child. The Report’s findings highlight significant potential impacts for parents, staff and the childcare sector as a whole.

Parents - potential impacts

- Limited availability of childcare services for young children and babies outside of the ECCE programme, as childcare facilities reduce or withdraw from running the less viable non-ECCE Rooms
- Potential increase in price of non-ECCE services, as supply reduces and/ or a subsidy is required by the service to justify running a non-ECCE Room
- A worsening childcare affordability crisis in Ireland, especially in the cost of childcare for under 3s, which is already among the most expensive in the EU (OECD, 2014). The high cost of childcare is exacerbated by the fact that Ireland has the fourth shortest period of paid parental leave in Europe and the gap between the end of paid leave and the beginning of free pre-school under the ECCE programme is approximately 138 weeks, depending on when during the ECCE programme year a child turns three years old

Staff - potential impacts

- An increase in the number of part-time employment contracts being offered on a 38-week basis, as opposed to 52-week, in line with the payments being received through ECCE
- Associated difficulties for staff, for example securing mortgages and making pension contributions
- Wages not reflecting staff qualifications, with Level 7-qualified staff earning relatively low wages and most services not being in a position to offer an increase in hourly rates
- Minimal professional development within the sector, as higher qualifications unlikely to lead to increased wages or a full-time 52-week contract

Childcare sector - potential impact

- Potential that the childcare sector becomes primarily a ‘pre-school’ setting, alongside School Age Childcare placements, moving away from the provision of traditional childcare services
- Since the workforce is one of the most influential determinants of quality in childcare, a lack of qualified staff will negatively impact on quality.
- A lack of professional development and opportunities within the sector is likely to reduce the attractiveness of the sector to qualified Level 7 staff
- Retention of staff will be difficult in a low-wage and part-time sector
- Failure to secure highly qualified staff, i.e. Level 7, will impact upon the capitation rate available to the service, with potential knock-on effects regarding viability

Childcare services are increasingly moving towards an ECCE only model, alongside School Age Childcare placements, in an effort to continue as viable going concerns. While this no doubt improves the financial sustainability of their service, it only works where low wages, part-time contracts and relatively low surpluses are the norm. Quite clearly, this is incompatible with the professionalisation of the sector and the ability of services to attract and retain the qualified staff they need to deliver quality care and education to children. If the sector continues in this direction, there will be an inevitable and significant impact on the availability and affordability of comprehensive childcare provision outside of ECCE, i.e. childcare provision on a full and part time basis and for under 3s, to the detriment of children, parents, staff and the sector as a whole.

It is vital that all stakeholders work toward achieving a robust, functioning and desirable childcare system in Ireland that ensures: quality for children; sustainability for both childcare services and their staff; and affordability for parents. To this end, ECI makes the following 10 recommendations to Government and policy makers.

ECI's 10 Recommendations

1. **Publish the National Early Years Strategy.** The National Early Years Strategy is a unique opportunity to identify the needs, opportunities and best interests of every child in Ireland from birth to 6 years of age, with special focus on early childhood care and education. The Strategy must recognise a universal, accessible and high quality ECE system as a right for all young children. It must be built and developed with parents and communities to support children's holistic development. The evidence informed policies set out in the Strategy must be accompanied by an implementation plan and timeframe and be met with the necessary funding by all the Government Departments charged with their delivery. The Strategy must serve as the roadmap for the future direction, development and funding of ECE in Ireland.
2. **Base state subsidies on a realistic assessment of the cost of providing childcare.** The financial viability and sustainability of childcare providers needs to be a key concern of policy makers, and not just the providers themselves. Government must address the structural deficiencies in the current funding model, whereby low state subsidies lead to low margins, low pay and poor conditions for staff, and ultimately undermines the ability of both the sector and the State to deliver quality services for children and affordability for parents. The levels of subsidy underlying the design of future schemes, as well as the existing ECCE programme, must be based on a realistic assessment of the cost of providing childcare with adequate margins. To this end, the Department of Children and Youth Affairs must expedite the independent review of the cost of providing quality childcare in private and community settings, consistent with the principle of ongoing professionalisation of the sector, as per the Programme for Partnership Government commitment (May, 2016).
3. **Initiate a new 'Early Education and Care Workforce and Professionalisation Plan'.** Government should conduct research and engage with the sector to develop a Workforce Plan that sets out a realistic assessment of the number of early childhood professionals that are needed, and where, over the next 5-10 years, including their levels of qualification and how we recruit and retain them.
4. **Develop a 'Capacity Plan' for the sector.** Government should develop a Capacity Plan based on evidence of need, setting out the numbers and locations for provision, and measures to address the most effective mix of efficient setting size needed, subject to geographic and other factors.
5. **Work with the sector to agree recognised salary scales for early years educators.** Government must recognise that inadequate State subsidies are sustaining the unacceptably low pay and poor conditions in the ECE sector. This has led to a staffing crisis. Services increasingly struggle to retain and recruit enough staff meet the adult:child ratios and/or appropriately qualified staff to satisfy regulatory requirements. Government cannot meet its own policy objectives to expand the childcare sector without addressing the pay and conditions deficiency. The additional investment in the sector must provide for increased salaries, where Government works closely with the sector to develop agreed salary scales in the medium term.

6. **Increase Paid Parental Leave and Introduce a Childcare Subsidy for under 3s.** Mindful that UNICEF recommends 12 months' paid parental leave as a minimum, ECI urges the Government to act quickly on its Programme for Partnership Government commitment to "significantly increase parental leave in the first year of a child's life" and "prioritise paid parental leave in the first year". Thereafter, Government must introduce a childcare subsidy to support parents with the full year childcare costs, where the State pays the provider or registered childminder directly to subsidise the real cost of childcare. In order to have any meaningful impact on the affordability and availability of childcare for under 3s, the subsidy level must be sufficient to address the current sustainability difficulties for provision to this age cohort. A minimum initial €20 million investment is required for this subsidy in 2017 (see Early Childhood Ireland Budget 2017 Submission 'Time for Giant Leaps Toward Quality, Sustainability and Affordability in Irish Childcare'). This subsidy needs to be increased consistently year on year, and achieve a minimum contribution of €60 per week by 2021. This subsidy should be rolled out as part of the Affordable Childcare Scheme, with higher subsidies for low-income households.
7. **Get the Affordable Childcare Scheme right from the start.** The new Affordable Childcare Scheme must be planned and developed to ensure it provides a comprehensive and coherent system of supports for all children availing of childcare, including ECCE and School Age Childcare, and provides a flexible and robust platform for all future investment in childcare. The design of the Scheme needs to:
- Be informed by an independent review of the cost of providing quality childcare in private and community settings, consistent with the principle of ongoing professionalisation of the sector, as per the Programme for Partnership Government commitment (May, 2016).
 - Be informed by the knowledge and expertise that the sector has to offer. Preparations for the Scheme need to include a comprehensive consultation and engagement process that ensures that the voices of providers and parents are heard.
 - Recognise that a 'one size fits all' approach will not suffice and that one level of subsidy will not work everywhere. Many factors influence to the cost of providing childcare. They may be geographical or specific to the needs of particular communities and children. For example, subsidies should reflect the higher cost of providing childcare to children with disabilities in the under 3s cohort and in School Age Childcare i.e. outside of the Access and Inclusion Model (AIM) in ECCE.
 - Be based on year-round supports, and incorporate non-contact time at a minimum of 10% equivalent of contact time and CPD for all staff.
 - Allows parents and providers to interface with a single, accessible and coherent system of supports.
8. **Eliminate disincentives so that providers can offer a full suite of childcare.** Government needs to carefully construct its supports for ECE so that it does not inadvertently create disincentives and barriers to services providing a full suite of childcare for children in their early years and in School Age Childcare.
9. **Recognise all ECE services as educational services and as such exempt from paying commercial rates.** This is important as a matter of principle, whereby the State recognises and values the learning, development and well-being fostered by Early Years Educators in ECE settings. Furthermore, since all community providers and private providers offering ECCE-only services are exempt from paying commercial rates, it is also a clear example of an unintended inducement for struggling private providers to move to an ECCE-only model.
10. **Develop a model of School Age Childcare that is regulated, subsidised and avoids displacement.** The Department of Children and Youth Affairs and the Department of Education and Skills need to be cognisant of the important role School Age Childcare plays for existing childcare services in subsidising the cost of wider childcare provision, particularly for the under 3s. Serious consideration must be given to the negative impact of displacement "to primary school buildings for afterschool care provision"⁶ on the viability and sustainability of existing providers in areas where demand for additional School Age Childcare places is not evident.



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