Summary Report to

An Roinn Leanaí agus Gnóthaí Óige
Department of Children and Youth Affairs

Review of the Cost of Providing Quality Childcare Services in Ireland

March 2020

Summary Report

Background

Crowe (formerly Crowe Horwath), in association with Apteligen, were commissioned by the Department of Children and Youth Affairs (DCYA) to undertake an independent review on the cost of providing quality childcare in Ireland. The project was part of a wider commitment by the DCYA to establish an evidence base for the development and support of quality Early Learning and Care (ELC) and School Age Childcare (SAC) provision in Ireland. This contract was awarded in Autumn 2017. The brief included:

- analysing the current costs of providing ELC and SAC and the factors that impact on these costs;
- the development and delivery of a model of the unit costs of providing ELC and SAC that allows analysis of policy changes and variation in cost-drivers, including the potential impact of professionalisation; and
- providing an objective, high-level market analysis of the sector in Ireland, including analysis of fee levels charged to parents.

An Oversight Group for this work was established by DCYA, comprising representatives from the DCYA, the Department of Education and Skills (DES), and Pobal. The Oversight Group met regularly to provide insight, review outputs, discuss and sign off on key project decisions, including the design of the survey tool. An overall approach and methodology was decided upon in partnership with the Oversight Group and Crowe/Apteligen and a number of key activities have been undertaken to date. These include:

- review of literature, context, existing data, and reports, including those submitted via a call for evidence and literature searches (comprising peer-reviewed and "grey" literature);
- an initial scoping exercise of early-stage informative engagement with 19 providers of different sizes, types, and locations comprising an overview of the providers' business models and financial records to understand the cost drivers and key issues impacting on the operation of the providers' businesses;
- engagement with key stakeholders from the sector, including the Early Years Forum, provider representative organisations, the City/County Childcare Committees, Statutory bodies, professional training bodies, and academics;
- the administration of a survey to all centre-based providers nationally, to provide the data on which the cost modelling tool would be based;
- the development of a cost modelling tool (and guidance document) to present the baseline cost data and enable the impact of a range of scenarios on unit cost, to be tested; and
- the production of a final report.

Outputs from the independent review of costs were subject to an independent peer review.

Review of the Literature & Market Analysis

A high-level literature review was undertaken to inform the review, including the Irish and international context for ELC and SAC provision, quality, and costs. Examples of international research into determining the costs of ELC and SAC provision and the principal components and drivers of such costs were examined, including studies from England, Scotland, and New Zealand.

A high-level market analysis is also undertaken, examining the ELC and SAC market in Ireland as it pertained at the time of the provider survey, including features of the market such as the current structure of Exchequer funding in Ireland, market drivers, and the profile of centre-based providers in terms of size, type, urban/rural location. Consideration was also given to “reasonable profit” for State aid in respect of ELC and SAC services and brief analysis of this issue was undertaken to inform future policy decisions in terms of setting the levels of subvention for these services in Ireland.

Stakeholder Engagement

In addition to the literature review, there was a consultation process with key stakeholders, principally via the Early Years Forum, and direct engagement with a number of providers. These providers were selected by Crowe to cover the various aspects of provision, and varied in size, location (in terms of geographic and urban/rural mix), and type (private and community providers). Irish-language providers were included in the cohort of providers visited. These engagements included reviewing the financial accounts of the provider to understand key cost issues and provided a useful insight on key cost items recorded, and how this information was typically captured.

The stakeholder engagement was informative in relation to understanding the primary concerns and insights of providers to inform the process and to assist in developing a survey tool to capture information to examine some of the issues involved in a more structured way.

Survey Administration & Dataset

All ELC and SAC services were invited to participate in the survey. The list of relevant services and contact details was provided by Pobal. This list totalled 4,504 services at the time the survey was launched. Over the course of the survey roll-out, in order to encourage a higher participation rate, the deadline to return completed surveys was extended; the Minister for Children and Youth Affairs and the DCYA issued several press releases to encourage participation and called upon members of the Early Years Forum to encourage participation among their membership bases; and Crowe engaged with stakeholder organisations to promote the survey among their membership. The survey responses totalled 859, yielding a 19% response rate.

As is typical with exercises of this nature, it was necessary to undertake a cleaning process to “correct” or remove data, which were considered to be implausible. During the cleaning, a variety of common inaccuracies were discovered and rectified, including missing values, mistyping, and misinterpretation. The final cleaned dataset used for analysis totalled 573 responses. The profile of the cleaned dataset is closely aligned to the overall profile of the sector in terms of geographic distribution, urban/rural location, and provider type.

Survey Findings- Quantitative

The survey responses were analysed and key descriptive outputs are set out in the report. Key findings are as follows:

Profile

Services in Dublin accounted for 25% of respondents while services in Leitrim accounted for less than 1%. Just under 70% of services were private, with the remainder community services. The Mid-East had the lowest proportion of community provider respondents, with the highest in the South-West (46%). Almost half (49%) of respondents stated that they were a sole trader, with company limited by guarantee being the next most popular answer at 31%. Of the 4% that indicated Other, the responses included "community-based", "limited company", and "associated with a school". Community organisations primarily (88%) consist of companies limited by guarantee. Conversely, 70% of private services responding were sole traders.

When asked if the service was part of a chain or multiple-centre provider with a central or head-office function, the majority of participants who answered the question (90%) indicated that they were stand-alone; only a minority of respondents were part of a chain of providers. This varies only slightly between community and private providers, with a slightly higher proportion (12%) of community providers indicating they were part of a multiple-centre organisation with 7% of private providers indicating this.

For those that own the building used for services (28% of respondents), they were then asked if grant aid was availed of for building, extending, or renovating the premises. A number of providers (22%) indicated that they had availed of grant aid. The total grant aid availed of was €23m, the vast majority of which (€20.9m) was for building rather than extending or renovating. The distribution of grants among provider types revealed a significant difference between community and private providers. Although more individual private provider respondents reported receiving grants (82 private versus 36 community providers), the amounts received by those in the community sector for building grants are substantially more than those reported by private providers in the survey.

Services

The majority of respondents (91%) indicated that they provided, at a minimum, sessional services in the mornings. Only a very small number of providers (7%) stated that they provide services other than ELC and SAC. Community providers who responded indicated that they more frequently offered afterschool, out-of-term, and part-time services than the overall profile or that of private providers. Almost all services offering other services were in the community sector. Half (50%) of providers who responded to the question stated that they had a waiting list. However, when asked if there were plans to change the capacity of the service, 76% of the respondents indicated that there was no plan to change capacity. Only 2% stated that they planned to decrease capacity.

Rooms, Sibling Discounts and Provision of Food

The number of rooms available to and in use in the services ranged from one room to 15 rooms. Of providers who responded, 66% operate with only one or two available rooms. Just under a quarter (23.3%) have more than three rooms available. As might be expected, those providers only offering the ECCE Programme typically have fewer rooms available and in use, with 69% of ECCE Programme-only respondents having only one room available and in use.

Less than half of providers (41%) indicated that they offered sibling discounts. In addition, the provision and inclusion of food within the fees varies by the type of service provided. For services providing full-day places, nearly 90% of services indicated they provided food included within their fees. Sessional services were less likely to provide food, with 73% of morning sessional services and 68% of afternoon sessional services not providing food.

Staffing

The survey asked for details in relation to managers, ELC and SAC staff, and ancillary staff in the services. The numbers varied considerably, from one to four in the case of managers; one to 45 in the case of ELC and SAC staff; and from zero to nine for ancillary staff. The average number of managerial staff across all respondents is 1.2 while the average number of ELC and SAC staff is 5.3. Only 36% of services provided any numbers for ancillary staff – average 0.9. Community providers who responded had higher average numbers of ELC and SAC and ancillary staff than private providers. The average ELC and SAC staff numbers in ECCE Programme-only services are considerably lower than the overall average, at 2.2.

Over half of providers (57%) considered CPD to be mandatory for all employees, regardless of if they worked directly with children or not. When looking at private enterprises and community organisations, there is still a strong emphasis across both provider types on CPD. However, a larger percentage of community organisations considered CPD to be mandatory for all employees. More than two-thirds (69%) of respondents stated that the employer pays for all CPD, with a smaller proportion (23%) stating that the employer part-pays for CPD. Other options for payment of staff CPD activities were in the minority. Funding of CPD was broadly similar across the different provider types. For these CPD activities, 56% of providers noted that CPD is undertaken outside work hours only, with no leave available. Paid leave or overtime was available from 32.5% of respondents, and 11% made unpaid leave available for CPD.

The majority of respondents indicated that they had no plans to change staffing resources, with no change planned for either number of staff or staff hours. Only 5% of providers who answered the question planned to decrease in the coming 12 months and only 6% of those responding planned to decrease hours in the coming months. Slightly more planned to increase staff or hours in the coming 12 months (27% and 21% respectively), but, overall, providers were not planning on making any changes to staffing resources in the following year.

Across all respondents, the average percentage of staff leaving within the past 12 months was 12%, ranging from 0 to 100%. However, 59% reported no staff leaving in the preceding 12 months. The majority of respondents (83%) indicated that the capacity to offer attractive wages or salary levels was a key concern. Another key concern for many providers (72%) was the difficulty of attracting suitably qualified and experienced staff. The responses less commonly highlighted by respondents included difficulty attracting staff with appropriate language competency, and competition from other providers.

Survey Findings – Qualitative

The survey included some opportunities for participants to express their opinion on the key issues. A brief overview of these qualitative responses is set out here.

- Providers believed that the low salaries within the sector impact on the ability of providers to both recruit and retain qualified staff.
- The part-time nature of work in the sector, including services that lay off staff in the summer months as services are not funded year-round (e.g. ECCE Programme), was also cited by providers as a significant challenge to recruitment and retention of staff.
- Providers also reported experiencing difficulty in finding appropriately qualified, capable, and motivated staff.
- All providers reported experiencing significant financial challenges and pressures.
- Some providers indicated they perceived a great of deal of financial uncertainty operating in the sector, reportedly reducing the ability of providers to plan ahead, particularly with regards to staffing decisions, stemming from not being able to predict income due to not knowing how many numbers they will have until the beginning of a term.
- Providers reported a perception of poor morale amongst those working in the sector, driven by some of the issues listed above and a more general sense of the work of the sector not being fully valued.
- A common frustration expressed by a number of providers was the perceived complex level of administration required to operate in the sector and comply with regulations; this administrative workload was reported as onerous and time-consuming.
- A number of providers who worked in rural areas referenced specific challenges due to their operating environment, including low population numbers which impact on income, (in)accessibility of training events for staff, and operating in areas of lower income.
- Many of the issues cited by Irish language providers were aligned with those of English-language providers, such as difficulty in recruiting staff, paperwork, and so on.

Advanced Analysis of Dataset: Regression

A statistical technique known as regression analysis was undertaken on the survey dataset to better determine cost drivers. Regression allows for a more robust understanding of the relationship between variables. The design of the regression approach was informed by review of documentation to develop a set of hypothetical cost drivers and this was used to identify key hypothesised drivers of unit costs.

The principal findings from the regression analysis are summarised below:

- Size played a key role in the variation in unit cost, with large services cheaper than smaller services. Much of the advantage in size may be due to efficiencies that come with scale. Other efficiencies were also important, however. For example, those services where all the hours were filled had a lower unit cost than those with vacancies. Similarly, the effect of the age of the children on cost was apparent, with school age children being cheaper to provide for than younger children. This is likely related to regulations concerning the number of staff required (adult-child ratio) for different age groups.
- Where there was more non-contact time, the service was generally more expensive.
- There also appeared to be cost savings for particular entity and premises types, and this may be due to differences in overheads. For example, sole traders seemed to have lower unit costs,

and those services which did not have a formal lease also benefitted. This may be related to very small service providers operating out of their homes.

- The model shows that the service characteristics play a clear role in driving variation in unit cost and suggests there may be some potential value in segmenting services into categories to support policy decision-making. In particular, there appear to be some distinct service types, with a contrast between smaller services that primarily focus on ECCE provision, and larger services that offer a range of different session types.
- The unit cost was higher in services with higher capitation, presumably as the costs of employing staff are higher. This is consistent with the findings in other studies.
- Services that opened all year appeared to have a lower unit cost than those that did not. This contrasts a UK study, which found that all year opening was associated with a higher cost than term only. It may be that the association of all-year opening with size is responsible for this (very large services tended to open all year).
- In terms of geographic variables, the final model retained an indicator for rurality, with urban services being more expensive than those in rural areas.

Cost Modelling Tool & Unit Cost

A cost modelling tool was developed for the DCYA using the survey data. The cost modelling tool has been designed to allow the DCYA to test a range of different assumptions and scenarios and identify the impact of these on unit cost.

The average unit cost per hour is based on the cost modelling tool outputs from the data supplied by providers. Whilst every individual provider is different and will have a different actual cost per hour, this will be reflected in the average unit cost per hour. The cost modelling tool does not attempt to reflect differences in operating models or any local circumstances that may impact on cost.

Unit costs were calculated using filled places, hours per place per year (derived from hours per week/day and service weeks per year), and total costs.

The cost modelling tool assessed the average unit cost per hour of ELC and SAC provision as €4.14. This is averaged across all age groups, staff ratios, service types, and so on. There is a wide distribution of unit costs (see main report for further details as well as average unit cost for different service characteristics).

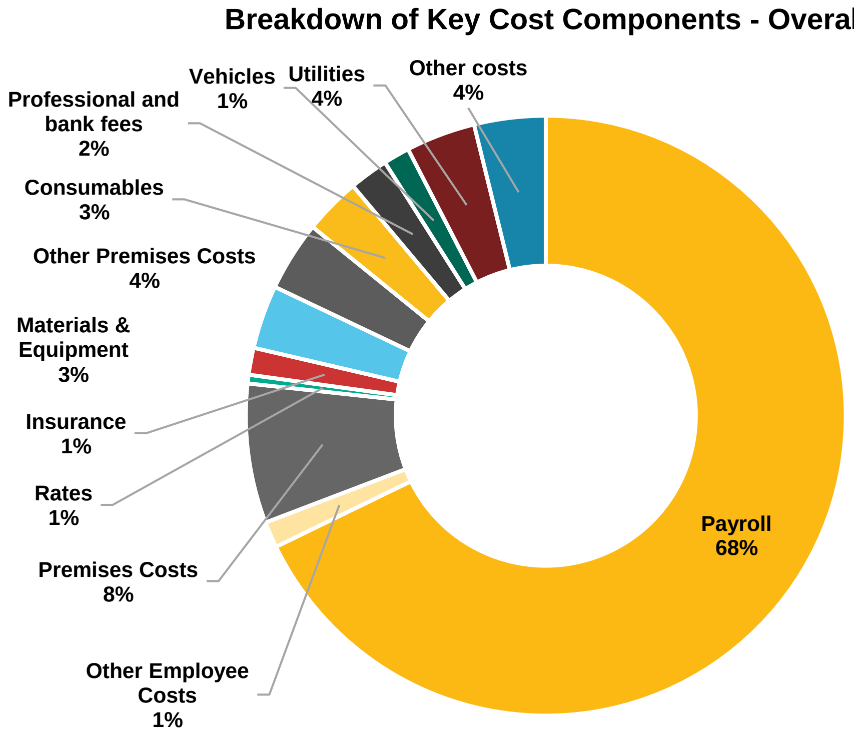
This average unit cost is closely aligned to comparative cost data found in other jurisdictions. For example, a detailed study of costs and income for childcare providers in Scotland in 2016 provided a detailed breakdown of the per hour costs to providers as being on average £3.70/hour (roughly €4.20). In New Zealand, in 2013 the average cost per child per hour of childcare was calculated as ranging from $5.80NZ to $10.20NZ (somewhere in the region of €3 to €6). Findings from work undertaken on behalf of the Department for Education in England is also provided (below)

	Age Group			
Provider Type	**2-year-olds**		**3- & 4-year-olds**	
	1:3.2 Ratio	**1:4 Ratio**	**1:6 Ratio**	**1:8 Ratio**
Private group-based	£5.87	£5.00	£4.25	£3.56
Voluntary group-based	£5.39	£4.54	£3.81	£3.14
			1:10 Ratio	**1:13 Ratio**
Primary schools – nursery	n/a	n/a	£4.37	£3.60

(Source: Review of Childcare Costs: the Analytical Report, DfE, 2015)

Overall Cost Breakdown

The broad components of cost identified suggests a pattern consistent with those found in other jurisdictions: a dominance of staff costs in the make-up of the overall cost figures, as illustrated below:



Concluding Comments

Over time the cost modelling tool will need to be updated to reflect changes in costs through normal inflationary pressures or as a result of policy changes. These policy changes may be reflective of sector-specific initiatives but may also encompass wider governmental decisions that may impact on the cost base of providers.

These findings should be useful to the DCYA in the consideration of future policy decisions in respect of childcare subsidy rates.

The capacity to examine further the impact of different cost drivers and scenarios within the cost modelling tool will further support the DCYA in policy formation.