

# FUNDING MODEL STAKEHOLDER ENGAGEMENT

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## Workshop #4: Partnership between the State and services to provide for sustainability & accountability

May 2021





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## EXECUTIVE SUMMARY

This document summarises the key conclusions emerging from the third Phase 2 stakeholder workshop which focused on the *partnership* between the State and services to provide for *sustainability and accountability*.

### Context

Frontier Economics are carrying out a programme of stakeholder engagement with the Early Learning and Childcare Stakeholder Forum (ELCSF) on behalf of the Department of Children, Equality, Disability, Integration and Youth (DCEDIY) and the Expert Group. The Expert Group have been asked to develop a new funding model for early learning and care (ELC) and school aged childcare (SAC) in Ireland to recommend to the Minister and Government. The Expert Group's Terms of Reference<sup>1</sup> include proposing a new Funding Model for ELC / SAC. In delivering on these Terms, the Expert Group is **not** asked to propose changes to the current model of delivery (i.e. privately-operated provision). Therefore, the proposed new funding model will take the current delivery model as given and seek to achieve policy objectives of quality, affordability, accessibility and contributing to addressing disadvantage in a privately-operated market through increased public funding and public management.

This stage of stakeholder engagement is focused on generating proposals for a new funding model to feed into the Expert Group's work.

### Priority areas

The fourth Phase 2 workshop focused on partnership between the state and providers to achieve greater accountability and sustainability. The three key questions where we wanted stakeholders to provide input were:

- What factors currently influence the shape of the sector?
- What would a more sustainable partnership between the State and services consist of?
- Is a profit driven model of provision consistent with increased state investment?

We have summarised the key areas of consensus and disagreement immediately below. More detailed conclusions from the workshop then follows.

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<sup>1</sup> <https://first5fundingmodel.gov.ie/wp-content/uploads/2020/01/Terms-of-Reference-1.pdf>

## AREAS OF CONSENSUS

- Families increasingly want flexibility in ELC/SAC services.
- The current funding model can limit the extent to which providers offer flexible services.
- A range of interrelated current and historical factors determine providers' operating structures.
- Greater state investment is needed going forward to ensure sustainability.
- Private ELC/SAC provision can have positive aspects such as filling public sector investment gaps but can also have disadvantages.
- Profiteering behaviour (cutting corners to maximise returns) was seen as rare.

## AREAS OF DISAGREEMENT

- There was no consensus regarding the nature of the future partnership between the State and providers.
- Some stakeholders remain strongly in favour a fully public model. Others suggested that a future model could incorporate wage supports and fee caps as part of continued private provision.
- A range of different suggestions were put forward to guard against future profiteering including profit caps, greater assessment of providers relative to quality standards and more powerful inspections.

### Greater flexibility for families was seen as important going forward

Multiple stakeholder representatives from different groups stated that parents want more flexibility from ELC/SAC. This flexibility can include flexibility of service offerings over time within individual families and flexibility in offerings across families to accommodate different needs.

We were told by providers that responding to requests for flexibility is currently difficult given that settings are only sustainable when they are at full capacity (and therefore cannot hold spare spaces for this purpose). More widely stakeholders emphasised that providing flexibility for parents is difficult for settings to provide due to the associated administrative burden and the foregone income associated with sporadic provision (especially if staff have to be retained on a full-time basis).

As well as increased flexibility, multiple stakeholders also expressed the view that parents would like an extension to the current hours that are funded by programmes such as ECCE and NCS.

### Several factors can influence a provider's choice of operating structure

Members from different stakeholder groups, including providers and academics, agreed that providers generally 'fell into' a particular operating structure. We were told that it was not always a well-informed decision and there may be a lack of full understanding of the pros and cons of the different options in some cases (such as sole trader versus limited company).

Other factors were highlighted as important drivers such as:

- **local need:** for example, areas of greater disadvantage may have higher demand for community services.
- **regulation:** high governance requirements for community settings, such as the responsibility placed upon voluntary boards, can lead providers to set up privately; and/or
- **lifestyle factors:** for example, there are significant number of settings in providers' homes and in these cases providers may want to remain as sole traders.

### The distinction between community and for-profit settings is seen as unhelpful

Representatives noted that stereotypically the main motivation for for-profit providers is seen to be making a surplus of income over costs, while community providers are more motivated by the desire to meet the needs of children. However, this was seen as an inaccurate and unhelpful distinction by multiple stakeholders. This is because community providers also need a surplus for re-investments and improvements to their services and for-profit services are often motivated by the needs of children.

### There are a number of pros and cons of private provision in this context

Various representatives said that private provision had helped to combat public underinvestment in the sector by providing infrastructure and filling the gap that was left by the State. This led to the opening of new services to accommodate rising demand which would not have been possible otherwise.

Other stakeholders noted that private providers were able to adapt to changes in the sector quickly and reflect its changing needs. However, other stakeholders noted that this responsiveness could lead to the reduction of services that were important but not profitable. This is because private providers do not have any "public service" requirement (obligation to provide services that are in the public interest even if they do not offer a commercial return).

A number of stakeholders feared that for-profit provision may be reducing quality, either through low pay or provision of sub-standard services. One stakeholder expressed the view that ELC and SAC provision was effectively being subsidised through low wages, and these were possible only in the private sector because unions would not allow them in the public sector.

### Some temporary and permanent aspects of the current model were viewed positively in relation to sustainability

Multiple stakeholders discussed the benefits of the EWSS program, and how this has allowed providers breathing room during the pandemic. In particular the generous coverage of staff costs via EWSS mean that aspects such as non-contact time, were supported for the first time.

Providers explained that ECCE does provide predictable income for settings. However, we were told that even if a setting is operating at full capacity only the

higher capitation rate was sufficient to support providers and allow for sustainable provision

### Other features were seen to be destabilising

We were told that the linking of NCS funding to hours attended can have a destabilising effect on providers and was judged to be inconsistent with other parts of providers' business models. This instability can happen via additional administrative burden and uncertainty in funding associated with inconsistent attendance.

### Several mechanisms were put forward to avoid future profiteering

- Profit margin / fee caps
- State support of staff pay (low pay was seen to be inherently linked to profiteering)
- Rolling out agreed quality frameworks to ensure that there is an agreed standard all providers can be held to
- Supporting existing providers via increased funding and therefore limiting potential new entrants and greater financialisation (using ELC services as assets to leverage borrowing to allow for expansion and business development)
- Ensuring new providers are vetted
- Providing additional powers to inspectors to act when substandard provision is identified

### Options for partnership between state and providers within the new Funding Model

As in other sessions, a number of stakeholders were disappointed that the option of full public provision was not being considered as part of this process.

It was felt that the government is already heavily involved in the sector, but that this needed to be more collaborative going forward, where the government consults and listens to providers rather than imposing changes on them.

There were suggestions for a public / private partnership and de-marketised model (i.e. control of both wages and fees, underpinned by public investment) to remove the current tension between quality and affordability. We were told that this could be achieved if the state partially or fully took on the costs of employee compensation and introduced fee controls which would help to eliminate the conflict between affordability and professional pay.

Stakeholders were also in agreement that the regulatory burden needs to be reduced in the future model and some level of "trust" was needed to be put in providers by the State. Suggestions to streamline the process were made including administrative hubs to help providers deal with the burden or combining all regulation and inspection under one State regulator.

# 1 CONTEXT

## 1.1 Background to the First 5 project

*First 5: A Whole of Government Strategy for Babies, Young Children and their Families 2019-2028*<sup>2</sup> was published in November 2018 and sets out an ambitious programme of work across Government Departments to improve the experiences and outcomes of children in Ireland from birth to age 5 across all aspects of their lives in the coming ten years.

### 1.1.1 Role of ELC & SAC within *First 5*

One of the major objectives of *First 5* is that babies and young children have access to quality Early Learning and Care (ELC) and School-Age Care (SAC) which is tailored to their stage of development and need.

#### **FIRST 5: OBJECTIVE #8**

Babies and young children have access to safe, high-quality, developmentally appropriate, integrated ELC (and school-age childcare), which reflects diversity of need.

Allied to that objective, *First 5* identifies as a key building provision of further public sector funding that enables the best outcomes for babies, young children and their families.

#### **FIRST 5: BUILDING BLOCK #5**

Additional public funding that is strategically invested to achieve the best outcomes for babies, young children and their families.

The Irish Government has committed to at least doubling investment in ELC and SAC by 2028. As committed to in *First 5*, to ensure that this commitment is realised in a transparent and efficient manner that delivers for children, families and the State a new Funding Model is being developed.

### 1.1.2 Role of the Expert Group

On 18 September 2019 Minister Zappone announced an Expert Group to develop a new Funding Model for ELC and SAC. The Expert Group's Terms of Reference are as follows<sup>3</sup>:

<sup>2</sup> <https://www.gov.ie/en/publication/f7ca04-first-5-a-whole-of-government-strategy-for-babies-young-children-and/>

<sup>3</sup> <https://first5fundingmodel.gov.ie/wp-content/uploads/2020/01/Terms-of-Reference-1.pdf>



## EXPERT GROUP TERMS OF REFERENCE

Agree a set of guiding principles to underpin the new Funding Model for Early Learning and Care and School Age.

Review the existing approach to funding Early Learning and Care and School Age Childcare services by the Department of Children and Youth Affairs in terms of its alignment with the guiding principles as well as effectiveness in delivering on the policy objectives of quality, affordability, accessibility and contributing to addressing disadvantage.

Drawing on international evidence, identify and consider options on how additional funding for Early Learning and Care and School Age Childcare could be structured to deliver on the guiding principles and above policy objectives.

Agree a final report including a proposed design for a new Funding Model, with accompanying costings, risk analysis and mitigation and phased implementation plan (with funding likely to become available on an incremental basis) to recommend to the Minister for Children and Youth Affairs and ultimately Government.

In delivering on these Terms, the Expert Group is not asked to propose changes to the current model of delivery (i.e. privately-operated provision) rather the Group should seek to further achieve policy objectives of quality, affordability, accessibility and contributing to addressing disadvantage in a privately-operated market through increased public funding and public management.

The full Terms of Reference set out a detailed list of matters that are in scope for consideration by the Expert Group and are available at: <https://first5fundingmodel.gov.ie/wp-content/uploads/2020/01/Terms-of-Reference-1.pdf>.

## 1.2 Role of Frontier

Frontier have been commissioned as a research partner to provide support to inform the development of a new Funding Model for Early Learning and Care and School-Age Childcare. This has involved the production of research reports.<sup>4</sup>

As part of our role as research partner Frontier have been commissioned by the Department of Children, Equality, Disability, Integration and Youth (DCEDIY) to carry out a programme of stakeholder engagement on behalf of the Expert Group.

### 1.2.1 Building on previous engagement

At the first meeting of the Expert Group in October 2019 special consideration was given to consultation and engagement, with an options paper presented to and discussed by the Expert Group. In the initial meetings and as outlined in the project plan, it was agreed that consultation and engagement would be composed of three phases:

- Phase 1: Identification of key issues

<sup>4</sup> <https://first5fundingmodel.gov.ie/publications-2/>

- Phase 2: Development of deeper understanding of key issues and generation of proposals.
- Phase 3: Testing of proposals

Phase 1 was completed in December 2020, and the results have been published.<sup>5</sup> Frontier are undertaking Phase 2 which will allow for the generation of proposals for new funding model and explore in-depth the issues identified in Phase I.

## 1.3 Structure of Phase 2

We have three overall objectives as part of the Phase 2 engagement:

- Explore the specifics of Phase 1 issues raised and the potential trade-offs
- Generate proposals for funding model design
- Establish level of consensus for specific ideas for the new funding model

We have been asked by the Expert Group to explore four themes as part of Phase 2.

**Figure 1 Four themes to be covered by Phase 2 engagement**

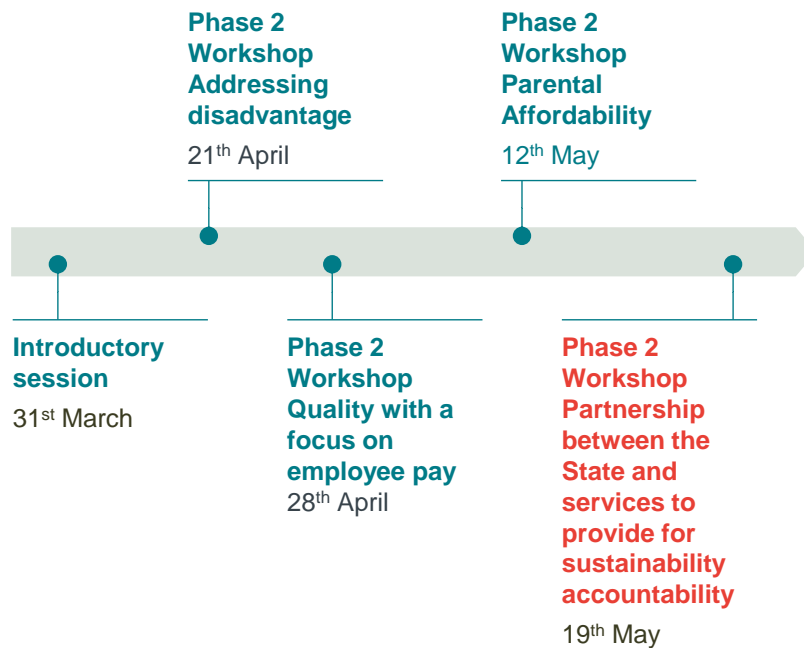


Source: Expert Group

Each of the themes were discussed in depth during a half-day virtual workshop. The fourth of these sessions focused on **partnership between the State and services to provide for sustainability & accountability** and was held on May 19<sup>th</sup>. Prior to this an introductory session occurred on 31<sup>st</sup> March to let all participants know what to expect during Phase 2 and the first three half day workshops occurred in April and May.

<sup>5</sup> <https://first5fundingmodel.gov.ie/wp-content/uploads/2021/04/1.-Phase-1-Consultation-and-Engagement-Overview-of-Phase-1.pdf>

Figure 2 Timing of Phase 2 engagement



## 1.4 Attendees

The Minister for Children, Equality, Disability, Integration and Youth has established an Early Learning and Childcare Stakeholder Forum (ELCSF). The ELSCF's member include representation from the following constituent groups:

- providers.
- practitioners.
- parents.
- children; and
- academics.

Engaging with this broad base of stakeholders will allow us to incorporate a variety of different perspectives and ensure that all proposals are robustly tested by those with requisite expertise.

Frontier Economic are carrying out a programme of stakeholder engagement with this group.

## 1.5 Structure of this document

The remainder of this document is structured as follows:

- In Chapter 2 we provide detail on the specific format and structure of the fourth half-day workshop focusing on partnership between the State and services to provide for sustainability and accountability;
- In Chapter 3 we summarise stakeholders' views on the optimal service offer from parents' perspectives, drivers of services' operating structure decisions and historical implications of relying on private provision in this sector.

- Finally, in Chapter 4 we present stakeholders' perspectives on the extent to which the current structure of public funding supports financial sustainability, how we can guard against profiteering in the future and how the sector and state can work together following increased state investment.

## 2 FORMAT AND FOCUS OF WORKSHOP #4: PARTNERSHIP BETWEEN THE STATE AND PROVIDERS

### 2.1 Preparation and areas of interest

Prior to the workshop session a briefing document was shared with all participants which contained:

- a summary of what is meant by sustainability and accountability
- evidence collected by Pobal on the current shape of the sector including<sup>6</sup>:
  - Number of ELC and SAC services by organisation type
  - Types of premises
  - Size distribution
  - Opening hours
- Evidence on the proportion of income different ELC/SAC services receive from parental fees.

The document also outlined the key questions we wanted to discuss with stakeholders during the session. This allowed representatives to consult with their members and colleagues in advance. The three key questions where we wanted stakeholders to provide input were:

- What factors currently influence the shape of the sector?
- What would a more sustainable partnership between the State and services consist of?
- Is a profit driven model of provision consistent with increased state investment?

### 2.2 Format of the day

The half-day session on partnership between the State and services to provide for sustainability and accountability was divided into five sessions and a short break (Figure 3).

The break-out group sessions allowed each smaller groups of stakeholders to discuss a set of issues in-depth with a Frontier facilitator. The Frontier facilitators each followed a topic guide during these breakout sessions so that each stakeholder was given the opportunity to provide input across a common set of questions. The Frontier facilitators took detailed notes during each of the breakout group sessions which were not otherwise recorded.

During the two plenary sessions the Frontier group facilitators then provided an oral summary of the key points raised during the small group discussions and members of other groups could challenge and ask questions and respond to further prompts put forward by the Frontier team. This meant that we could identify areas of consensus and tease out proposals that were supported by multiple

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<sup>6</sup> <https://www.pobal.ie/app/uploads/2019/12/Annual-Early-Years-Sector-Profile-Report-AEYSPR-2018-19.pdf>

stakeholders. The plenary sessions were also attended by representatives from DCEDIY who did not participate actively but were present in an observatory capacity only.

We have summarised the key findings from sessions 2 and 3 in Chapter 3 and the insights and proposals generated during sessions 4 and 5 are contained in Chapter 4.

**Figure 3 Structure of workshop**



Source: Frontier

## 2.3 Attendees

The following organisations were represented during the workshop on partnership between the stage and providers:

- ACP
- Barnardos
- Better Start
- BLÁTHÚ Steiner Early Childhood Association

- Childcare Committees Ireland
- Childhood Services Ireland
- Childminding Training and Development
- Children's Rights Alliance
- CNNG
- Community Providers Forum
- Early Childhood Ireland
- Early Years - the organisation for young children
- Federation of Early Childhood Providers
- Gaeloideachas
- IBEC
- Men in Childcare Network
- National Parents Council
- National Travellers Women's Movement
- NCN
- Ombudsman for Children's Office
- OMEP
- One Family
- PLÉ
- Pobal
- Seas Suas
- SIPTU
- SVP
- Treoir

## 3 SHAPE OF THE SECTOR AND HISTORICAL ROLE OF FOR-PROFIT PROVISION

We asked stakeholders to highlight what the optimal ELC/SAC service offering is from the point of view of parents. As described in detail below we heard that increased flexibility and additional subsidised hours are the top items. We also discussed the motivations and drivers behind providers' chosen operating model. Stakeholders noted that there is a large degree of path dependence to these decisions and that in some cases decisions made by providers may not be fully informed. The needs of a local areas and policy landscape are also important drivers. When thinking about the advantages and drawbacks of Ireland's current reliance on private provision, stakeholders emphasised that private providers has filled gaps left by the state but can also in some cases lead to a tension between certain policy objectives such as affordability and quality.

### 3.1 Optimal service offer for parents

#### 3.1.1 Greater flexibility was seen as the key addition for parents

Multiple stakeholder representatives from different groups stated that parents want more flexibility. One representative explained that the current offering was restrictive, in terms of hours and choice of settings, which means that we may not understand what parents really want from ELC. If a wider variety of service offerings were available, we might see a very different pattern of utilisation.




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Flexibility is key. Different groups of parents want different things.

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As we describe below flexibility has a number of different dimensions and can include:

- flexibility of service offerings over time within individual families; and
- flexibility in offerings across families.

#### Flexibility over time within individual families

Flexibility was discussed in terms of last-minute changes to a child's attendance, (as a result of illness or visiting family for example). Parents ideally want to be able to change the volume of ELC/SAC they use during these periods. Emergency provision was raised as an important issue in this context (being able to secure a space at very short notice due to unexpected events).

We were told by providers that this is not currently possible given that settings are only sustainable when they are at full capacity (and therefore cannot hold spare spaces for this purpose). More widely, stakeholders emphasised that providing flexibility for parents is difficult for settings to provide due to the associated



administrative burden and the foregone income associated with sporadic provision especially if staff have to be retained on a full-time basis.

Representatives explained that the current system of regulation means that it is difficult to offer parents flexibility in the current model. For example, each time a child changes their attendance pattern, there is a significant amount of administrative work for the setting. This means that providers are more likely to refuse such requests from parents. It was agreed by other representatives that the new funding model needs to be streamlined to help with this.

Representatives explained that this regulatory burden can be more difficult to deal with for community settings, which are run by voluntary committees. In some cases, these settings will have a chairperson who provides a conduit between parents and regulators and the service providers themselves. This can mean that there is a bottleneck in relation to dealing with parents' requests. In some cases this can slow down the implementation of changes. It also requires a lot of time from the chairperson, who is likely to be managing multiple commitments at any one time. One participant raised the idea of providing hubs for support with the set-up and administrative side of community provision.

### Flexibility in offerings across families

Representatives explained that working parents may want different service offerings than non-working parents. In particular working parents may require ELC/SAC services to start early in the morning and finish later in the evening (to enable drop-off and pick-up of children as well as full time working).

As we discussed in depth as part of the workshop on addressing disadvantage this flexibility for parents is not only in terms of the hours that their children are in ELC, but also in the services received in those settings. Providers explained that some children will need hot meals or transport for them to be able to attend ELC. We were told that NCS currently does not pay for any additional resources over the hourly rate.

### 3.1.2 Extended hours and summer provision were also desired outcomes

As well as increased flexibility, multiple stakeholders expressed the view that parents would like an extension to the current hours that are funded by programmes such as ECCE and NCS. Representatives explained that a wraparound service would be helpful and that many parents use an 'ECCE plus' approach where ECCE is used because it is free, but additional hours are then required so that parents can work or study.

We were told that the current system does not always facilitate the provision of full-day services. This is because the hourly capitation rates tend to be fixed and do not consider the extra costs associated with full-day services such as additional breaks and facilities for staff. Other stakeholders noted




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Why is ECCE not all day?  
Children's education doesn't stop  
at 12pm

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that overall, there is more public funding available for part time care (such as ECCE) and full day is more reliant on parental fees, which can be a challenge in some circumstances. Representatives noted that in some cases settings that previously offered full-day care are now shifting to part-time care for these reasons.

Various representatives also expressed an interest in services being open during the summer period to provide a full-year service. Providers and charities explained that parents are currently interested in summer schools (provided by services or by third parties), showing that there would be demand for full-year services, but that the interaction between the two is currently complicated and should be simplified.

One stakeholder did note that there is some variability around these points and explained that parents who use her setting tend to prefer the ECCE-only terms and 38-week provision, so that they can spend more time with their children during the remaining weeks of the year. This further emphasises the need for flexibility.

Another stakeholder also stated that if provision should be child-centric and not parent-centric, then we need to think from the child's perspective and extending hours to fit around the parents' timetable may not always be in the child's best interest.

### 3.1.3 Flexibility has high regulatory administration

As previously mentioned, representatives explained that the current system of regulation means that it is difficult to offer parents flexibility in the current model. For example, each time a child changes their attendance pattern, there is a significant amount of administrative work for the setting. This means that providers are more likely to refuse such requests from parents. It was agreed by representatives that the new funding model needs to be streamlined to help with this.

Representatives explained that this regulatory burden can be more difficult to deal with for community settings, which are run by voluntary committees. In some cases, these settings will have a chairperson who provides a conduit between parents and regulators and the service providers themselves. This can mean that there is a bottleneck. This affects the speed at which changes can be implemented. It also requires a lot of time from the chairperson, who is likely to be managing multiple commitments at any one time. An academic raised the idea of providing hubs for support with the set-up and administrative side of community provision.

## 3.2 Drivers of operating structure decisions

### 3.2.1 There is a degree of path dependence for providers when setting up, but government policies are a key determinant, which currently leads to many sole traders

According to data collected by Pobal covering 2018/19:

- 74% of registered services were private for-profit (including 44% which were sole traders and 30% which were limited companies) and 26% were community

non-profit services. In addition, there is a sizable non-registered childminding sector.

- Only 8% of service providers were part of a chain of a multi-site provider.<sup>7</sup>
- Over a quarter of services are based in the service provider's own home and over a fifth of services operate without a formal lease. Only 17% of services own their own commercial building.

Members from different stakeholder groups agreed that providers generally 'fell into' a particular operating structure and that it was not always a well-informed decision as there may in some cases be a lack of full understanding of the pros and cons of the different options (such as sole trader versus limited company). However, several participants did cite multiple factors that do also influence this decision.

- **Need:** Some representatives outlined that the type of local needs influences what type of service is set up. For example, areas of greater disadvantage may have higher demand for community services.
- **Funding:** Some representatives explained that the structure of funding shapes the size and structure of settings, with greater capital grants leading to the establishment of larger settings and CCSP<sup>8</sup> leading to the creation of large numbers of community settings by offering funding for places for children of parents who might be characterised as disadvantaged.
- **Regulation:** We were told that high governance requirements for community settings, such as the responsibility on voluntary boards, can lead providers to choose to set up privately.
- **Lifestyle:** One representative felt that providers were able to choose an operating structure that fit with their lifestyle, in terms of the hours of service and the location. For example, there are significant number of settings in providers' homes in these cases providers may want to remain as sole traders.

More specific discussion amongst stakeholders focussed on the sole trader operating structure, and why this is being used extensively in the current system. It was felt by some that services generally began as sole traders and then expanded if they were successful to larger operating structures.



Government isn't stepping up, so responsibility is falling on voluntary boards

Being a sole trader was felt to be beneficial for tax reasons and was even described as the only way to make money in the sector. However, there are risks associated with being a sole trader in terms of personal liability. In addition, we were told that economies of scale mean that sole traders are not always the most efficient set-up. This is because average costs tend to decline as the number of children in a setting increases. However, this is only possible when a setting has multiple practitioners (which is rarer for sole traders).

<sup>7</sup> <https://assets.gov.ie/91399/cfb843b4-7d4b-4ddf-9f32-8e2c997b39b3.pdf>

<sup>8</sup> Community Childcare Subvention Plus (CCSP) programme gave parents who were in receipt of certain social welfare benefits or a medical card subsidised childcare, with different bands depending on the specific nature of eligibility.

### 3.3 Advantages of drawbacks of private provision in ELC/SAC services

We asked participants to highlight advantages and drawbacks of the current model of Irish ELC/SAC where all provision is privately run and there are no services provided directly by the State.

#### 3.3.1 The distinction between community and for-profit settings is unhelpful

A large number of representatives noted that stereotypically the main motivation for for-profit providers is seen to be making a surplus of income over costs, while community providers are more motivated by the desire to meet the needs of children. However, this was seen as an inaccurate and unhelpful distinction because community providers also need a surplus for re-investments and improvements to their services and for-profit services are often motivated by the needs of children.



Both private and community settings need to make a profit, else they are operating recklessly

In addition, one stakeholder flagged that slightly over half of those described as 'for-profit' are not actually making a profit, and that many who are considered to be making a profit are only considered so because the full financial and governance costs have not been taken into account.

There were also fears expressed by stakeholders that this distinction could create a two-tier system of care, where private and community settings are segregated and offered different resources. This is undesirable as the sector should be trying to break the stigma that certain services are exclusively for disadvantaged families, and that consistency of the level of provision between setting is key.

A more useful distinction was thought to be between settings that are making excessive profits and those that are not. Excessive profits were described as provider returns that were far above costs and generally considered to be possible in this context by cutting corners and harming quality. As we discuss below stakeholders felt that this type of profiteering was incredibly rare in the sector.

### 3.3.2 There are a number of pros and cons of private provision in this context

**Figure 4 Advantages and disadvantages of for-profit ELC and SAC settings in Ireland**



Source: Frontier Economics

#### Fill investment gap

Various representatives said that private provision had helped to combat public underinvestment in the sector by providing infrastructure and filling the gap that was left by the State. This led to the opening of new services to accommodate rising demand which would not have been possible otherwise. It was even suggested that the only way CCSP was able to give parents access to ELC was because private providers were able to deliver the hours included in the program.

However, one representative flagged that despite the private sector playing this role there are still shortages of supply in some cases. This has negative impacts on children and parental labour market participation, especially as supply tends to be lower in less wealthy areas leading to lower access and poorer inclusion for more disadvantaged children.

#### Innovation

Representatives shared another advantage of private provision, which was innovation. They felt that the private sector was better able to adapt to the sector's changing needs. Public provision may not be as nimble.

#### Reduced quality and inclusion

A number of stakeholders feared that for-profit provision may be reducing quality, either through low pay or provision of sub-standard services.

One participant expressed that current ELC and SAC provision was effectively being subsidised through low wages, and these were possible only in the private sector because unions would not allow them in the public sector. Another

representative felt that for-profit provision combined with price competition was likely to squeeze wages.

Other representatives were concerned that private provision could lead to the reduction of services that were important but not profitable because they do not have any “public service” requirement (obligation to provide services that are in the public interest even if they do not offer a commercial return). This could include services such as full-day care for example, as well as services that relate to disadvantage. One participant said that partnership with the State is required to ensure the inclusivity of marginalised groups.

## 4 SUSTAINABILITY AND PARTNERSHIP

We asked stakeholders to describe which aspects of the current funding model currently supports provider stability and sustainability and which aspects do not. This included discussion of the EWSS, ECCE and NCS programs. We also asked stakeholders to share ideas about how the new funding model could protect against future profiteering in the sector. This discussion centred around policies to support staff pay and controls on either fees or profit margins. Finally, the groups discussed how the new funding model could be used to establish a partnership between the State and providers.

### 4.1 Impact of the current funding model on sustainability and provider stability

#### 4.1.1 EWSS was viewed positively in relation to sustainability

Multiple stakeholders discussed the benefits of the EWSS program,<sup>9</sup> and how this has allowed providers breathing room during the pandemic. In particular the generous coverage of staff costs via EWSS mean that aspects such as non-contact time, were supported for the first time.

In addition, EWSS was seen as a predictable and reliable funding source for settings which provided stability during an emergency period. It was recognised by some stakeholders that the EWSS was not formally part of the business as usual supports offered to providers and therefore not part of the core funding package.

EWSS was described by one stakeholder as a really good place to start any discussions regarding the new funding model.

#### 4.1.2 ECCE is seen as backbone to the sector but does not fully support provider sustainability

Providers explained that ECCE does provide predictable income for settings. We were told that even if a setting is operating at full capacity only the higher capitation rate was sufficient to support providers and allow for sustainable provision.



ECCE is the backbone of the sector

However, stakeholders emphasised that in some cases the funding offered (combined with the inability to charge parents directly) means that some providers, (even when they are at full capacity) struggle to sustain themselves. This could be due to differences in mix of provision or different costs bases (e.g. higher premises costs for certain providers). Also, stakeholders told us that current capitation rates

<sup>9</sup> EWSS is an economy-wide enterprise support that provides a subsidy to qualifying employers based on the numbers of eligible employees on the employer's payroll and gross pay to employees. To qualify for the scheme, most employers have to demonstrate a reduction in income of 30%. ELC/SAC employers are exempt from this condition. EWSS is estimated to cover on average 80% of payroll costs for employers in the sector. At enhanced EWSS rates, the estimated investment per month in the scheme for the sector is approximately €35 million.



are only enough to support employing staff during term-time which has a negative impact on stability.

Stakeholders also highlighted the effects of ECCE rates not rising with inflation. When static rates are combined with rising costs of provision, we were told that provision can become less sustainable over time. In particular we were told that higher capitation rates would be required to provide parents the flexibility that they desire (described above). Moreover, ECCE does not guarantee staff pay, which stakeholders fear reduces the impact the program can have on quality.

It was noted that the higher capitation payments within ECCE that is awarded based on staff qualifications does help with providers' sustainability. However, some stakeholders told us that it can have some unintended consequences. For example, settings may allocate staff in such a way to ensure that they are eligible for these extra payments. This can mean that the youngest children (who have not yet reached ECCE eligibility) within a setting are being cared for by staff with the lowest levels of qualification. This was seen as suboptimal.

### 4.1.3 NCS does not support provider sustainability

Some providers flagged that currently NCS is primarily designed to benefit parents and as a result has little impact on providers.

We were told that the linking of NCS funding to hours attended can have a destabilising effect on providers and was judged to be inconsistent with other parts of providers' business models (e.g. staff on monthly wages rather than paid hourly). This instability can happen via two distinct mechanisms. Firstly, the strict monitoring of hours leads to an additional administrative




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We were told that the NCS would reduce the admin burden that we would face. In reality it has been the opposite.

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burden on providers which was viewed by some as unsustainable. Secondly, we were told that in some cases it is possible for providers to be asked by the department to return funding that has already been awarded (if it turned out that children did not turn up for all of the hours they were due to attend). In these cases, we were told that providers will have already spent the funding (on full time staff costs for example) and may struggle to recoup any of this funding from parents. Others noted that NCS does allow for up to 8 weeks of variation in attendance before any funding would be lost.

Some participants suggested that it may be possible to set up administrative hubs whereby providers could join forces to help share some of the administrative burden associated with current or future schemes. Other suggestions for current schemes include removing the attendance rules from NCS funding, so settings still receive funding if children are absent, as well as extending the hours of ECCE, and expanding the funding that is being given to under 3s. These are discussed in more detail in later sections on the new funding model.



## 4.2 Avoiding Profiteering

Some stakeholders defined profiteering as occurring when settings in the ELC and SAC sectors cut corners and reduce the quality of care that they provide, while extracting an unreasonable rate of return. This excessive rate of return was seen by stakeholders to come at the expense of other important factors including quality and affordability.

### 4.2.1 Why the State should try and reduce profiteering

Stakeholders felt that the associated reduction in quality associated with profiteering was seen to be particularly harmful when parents are not always able to distinguish between good, mediocre, and bad settings due to a lack of knowledge or understanding. This type of information asymmetry was seen to be due to the fact that parents make decisions about where to send their child based on only a brief tour of a setting for example.

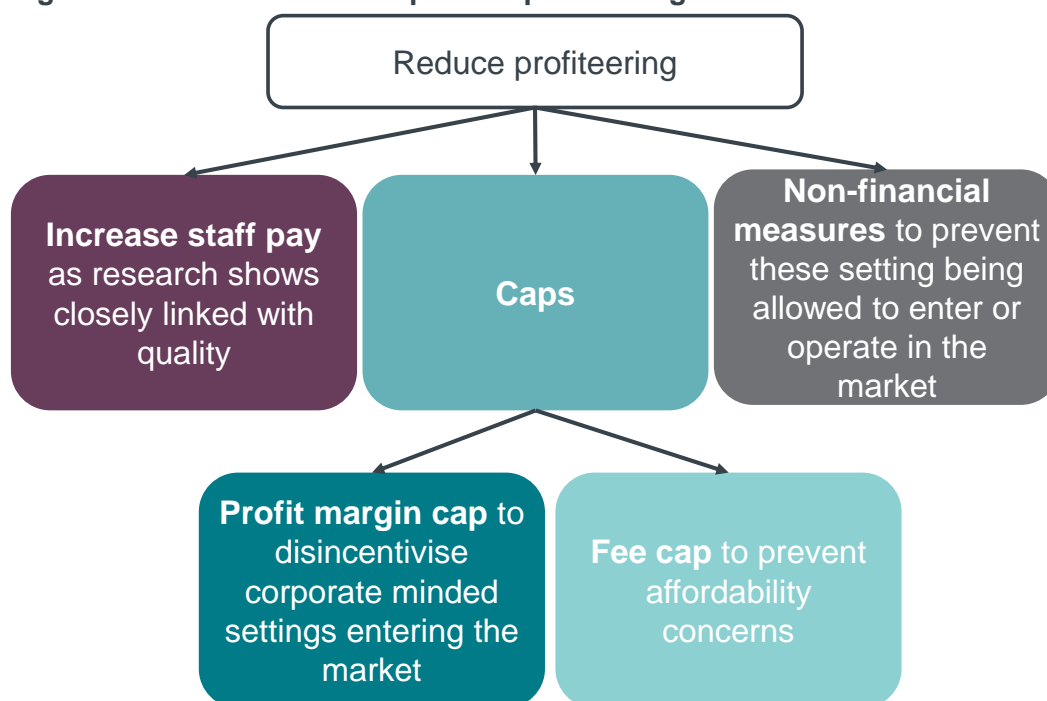
One participant noted that in their opinion profiteering is related to the size of the provider and associated economies of scale.

However, other participants felt that large settings did not on average provide low-quality ELC or make excessive profits and therefore a size cap would not be a sensible approach to avoid any future profiteering. It was felt that any caps or rules that are put in place need to be research-led, so that the state can be confident the interventions will have the desired results.

While participants did cite high profile examples of specific settings who were cutting corners in order to maximise their profits (e.g. substandard provision of food to children), there was agreement that these types of instances were currently very rare, and that profiteering was not at all common in any type of setting.

One representative expressed that the best way to keep profiteering out of the sector is to keep existing providers in the sector. This is because if current providers who do care about quality are forced to leave the market, then this could create a gap to be filled by more corporate minded providers.

In Figure 5 below we have set out possible interventions to avoid future profiteering in the sector. We discuss each of these in turn below.

**Figure 5 Interventions to prevent profiteering**

Source: *Frontier Economics*

#### 4.2.2 Interventions surrounding staff pay

Stakeholders felt that low staff pay, and profiteering were linked in two ways:

- Research shows that low pay leads to low quality by attracting a less qualified workforce and leading to increased turnover; and
- Given settings compete to some degree on price, settings that make excessive profits will most likely be paying their staff low wages.

It was felt that the current funding model did not support staff pay, and therefore changes needed to be made to support staff. This would increase the qualifications of staff and reduce turnover, which would improve quality, and also make profiteering more challenging as settings would have to pay their staff appropriately.

Stakeholders felt that the government should be responsible for staff wages, and that the use of Mercer pay scales combined with a JLC would help prevent excessive profiteering. However, this investment would need to be ringfenced.

One participant felt that as long as staff pay was ensured, settings should be allowed to keep any excess profits that were on top, if they managed to earn them.

It is possible that corporate minded settings could still make excessive profits by cutting corners that are not related to staff pay or by increasing fees on parents. Both would also need to be monitored (as discussed below) but with staff pay being such a large proportion of total costs, supporting this was felt to be a key intervention.

### 4.2.3 Other financial interventions including profit margin or fee cap

Other financial interventions that were suggested by stakeholders included fee caps or profit margin caps. These limit the revenue that a setting can bring in, but do not necessarily dictate the quality of service that a setting can offer, and therefore only deal with the affordability concerns surrounding excessive profiteering.

#### Fee controls

One representative felt that fee controls were key going forwards, and that combining these with pay scales (discussed above) would remove profiteering, by limiting revenues. Another representative also suggested fee controls as a way to guard against profiteering but highlighted that these were not the ideal solution as this may also disincentivise making profits for re-investment and improving quality.

#### Profit margin caps

A profit margin cap, or a 'cost plus' model was suggested by several stakeholders. Providers explained that because settings vary hugely, the profit margin cap would need to differ between settings and be negotiated individually with setting owners on a granular basis. This individual negotiation would be particularly necessary for sole traders, where profit margins are their income.

### 4.2.4 Non-financial interventions

Ensuring that all settings reach a certain quality threshold prevents corporate minded settings from corner-cutting behaviour (e.g. offering sub-standard food to children) that is associated with excessive profiteering. There were several suggestions made about how to ensure that all settings reach a sufficient quality standard. One of these, raised by multiple stakeholders, was to rollout existing quality frameworks which mandate certain conditions, as a way of guarding against profiteering.

Another was to increase the ability of the state to step in when shortcomings are identified, by increasing the power of inspections. One representative explained that the State needs to be more heavily involved in compliance. Another representative felt that currently inspections have "no teeth", and that their powers would need to be strengthened. However, some representatives felt that there are already lots of inspections, and they could potentially be combined or streamlined in the future.

As an alternative to ongoing inspections, assessment of new entrants was suggested by one representative. This could include meeting with new providers to determine whether the setting is likely to be good quality and is being established for the right reasons.

## 4.3 Options for partnership between State and providers within the new Funding Model

Stakeholders discussed a number of different components that they would like to see in the new funding model.

### 4.3.1 Calls remain for a public model as well as suggestions for a public-private partnership

As in other sessions, a number of stakeholders were disappointed that the option of full public provision was not being considered as part of this process. Despite this, a number of stakeholders from across different groups shared high-level suggestions around the form of the relationships between the State and private providers going forward.

It was felt that the government is already heavily involved in the sector, but that this needed to be more collaborative going forward, where the government consults and listens to providers rather than imposing changes on them.

To this end, a public-private partnership was suggested where private providers can continue to manage and reinvest in their services, but State would be able to remove profiteering from the sector, and support providers through funding and guidance. One stakeholder flagged that it was important that different initiatives are tested and piloted to see how they work in practice.

In addition, a separate suggestion was made to “de-marketise” the sector. We were told that currently private providers have to balance a tension between quality (which is closely linked to staff pay) and affordability. The only way providers can sustainably pay their staff additional wages (and therefore provide a higher quality offering) is via increasing parental fees. Likewise, the primary way providers can improve affordability is via reducing wages and therefore undermining quality. This stakeholder suggested that if employee compensation could be met by the State the conflict between affordability and professional pay would be partially / fully eliminated. This could be accompanied by fee controls which would then ensure that both fees and pay are taken out of “competition”.

### 4.3.2 Discussion around whether this partnership should be fully funded by the government or some parental co-payment remains

It was agreed by all stakeholders that the level of public funding should increase, but there was not consensus on what proportion of costs should be covered.

#### Fully funded

A number of representatives felt that the sector needed to be fully funded by the State, meaning that there would be no parental fees at all. This would allow settings to compete on quality and would not muddy the relationship between parents and providers by bringing in finances. Along with this funding we were told that the

State could continue to provide regulation or guidance on ratios, pay and qualifications.

### Increased free element

Several representatives felt that the universal element of support needed to be increased, but that it should not necessarily fully cover all provision for all families. Top-ups could then be provided for those who cannot afford any co-payment as we discussed in our workshop on inclusion.

### 4.3.3 Reduction in regulatory burden is a priority for stakeholders

Members from all stakeholder groups described the administrative and regulatory burden of the current system and discussed ways in which this should be reduced in the new funding model. Complying with administrative requirements is currently very costly that undermines provider sustainability and means that for many providers the administrative burden associated with the universal NCS element is not worth the additional funding.



Regulation is holding the sector back

Suggestions to streamline the process were made including administrative hubs to help providers deal with the burden or combining all regulation and inspection under one State regulator. One stakeholder mentioned ‘umbrella networks’ that are already appearing in the community sector to assist community providers with the process of establishing a setting and ongoing administrative and regulatory burden. It was suggested that this could be expanded systematically to include more settings and improve co-ordination.

Various representatives also described the State’s focus on hours of attendance, and subsequent attendance rules, as a drawback to the current system. The hourly element of the funding reduces predictability and sustainability and is not the way that the sector operates. It also doesn’t work for the funding to follow the child in the case of absences, because provider costs have not gone down when a child misses some time. An alternative was suggested where in the case of absences the funding is used by the provider as a cushion or to subsidise unfunded services.



The state’s focus on hours of attendance as a measure of success is unhelpful

### 4.3.4 Additional capital grants were suggested as an option going forward

Capital grants were raised as an idea by a number of representatives. These were thought to be necessary to develop community services, especially in disadvantaged communities where potential premises are more likely to be low-quality.

### 4.3.5 Extending funding to under-3s to capture those currently being missed

Representatives of various stakeholders also mentioned the current lower bound age cut-off of 3 years old for much of the current funding. At the moment this threshold is therefore channelling the resources into 3-5-year olds and leaving younger children with little State support. Stakeholders would like to see more baby rooms open and AIM being extended to under 3s. If implemented this could lead to wider uptake of ELC services which in turn could boost provider sustainability.

There was a discussion between some providers around whether ELC and SAC should be treated separately or together. One view was that they are so interlinked that they needed to be addressed simultaneously, while another was that dealing with just ELC simplifies the process and that a good model for SAC would 'fall out' of that process.



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If we fix ELC, SAC will follow

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