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FINANCIAL REVIEW OF SESSIONAL EARLY LEARNING AND CARE (ELC) SERVICES

A report prepared for the Department of Children, Equality, Disability, Integration and Youth (DCEDIY), Ireland

22ND NOVEMBER 2023

Contents

Glossary

Term	Explanation
Access and Inclusion Model (AIM)	A model of supports designed to ensure that children with additional needs can access the ECCE programme in Ireland.
Additional needs	See Special Educational Needs (SEN).
Capital employed	Capital employed is the sum of debt (for interest) and equity (for dividends or withdrawals by owner).
Cash flow	Cash flow is the ability to pay liabilities before receiving income.
CCSP (Community Childcare Subvention Plus)	CCSP was part of a set of targeted schemes (CCS, CCSP, CCSU and CCSR(T)) paying a portion of childcare costs for children up to the age of 15 for low-income parents. The subsidies were based on sessions rather than hourly rates. They began to be phased out with introduction of the NCS.
Charitable/fundraising revenue	Income raised from parents or charitable donations given to the business which are not paid in return for a service.
Child hours per staff contact hour	Child hours per staff contact hour is the owner-reported typical number of weekly child hours divided by the owner-reported typical number of weekly staff contact hours. This is related to the child:staff ratio but captures an average over all times of operation and may be lower than the maximum regulated ratio for services which may, at times, operate at the maximums.
Community service	See not-for-profit service.
Contact time	Time that staff spend with children in ELC or SAC activities.
Continuing professional development (CPD)	Activities designed to develop an individual's skills, knowledge and expertise as an ELC or SAC staff member, leader or head of a setting (or more generally, a professional).
Core Funding	Introduced in September 2022, Core Funding operates in addition to the ECCE programme and the NCS and distributes funding to ELC and SAC services based on their capacity, which is related to the costs of delivery. A graduate lead educator premium and a graduate manager premium are also available to ELC services through Core Funding.

Term	Explanation
Current assets	Current assets reflect cash and receivables recoverable over the next 12 months and any other relevant current assets.
Current liabilities	Current liabilities reflect payables recoverable over the next 12 months and any other relevant current liabilities.
Current ratio	The current ratio is the ratio of current assets to current liabilities.
Department of Children, Equality, Disability, Integration and Youth (DCEDIY)	DCEDIY is a department of the Government of Ireland. Its mission is to enhance the lives of children, young people, adults, families and communities, recognising diversity and promoting equality of opportunity.
Debt-to-equity ratio	The debt-to-equity ratio is total liabilities divided by shareholder equity. Also called financial leverage or gearing ratio.
Early Childhood Care and Education (ECCE)	Programme providing free hours of ELC for children aged between 2 years, 8 months and 5 years, 6 months.
Early learning and childcare (ELC)	All regulated arrangements to provide care and education for children under compulsory school age, regardless of setting, funding, opening hours or programme content.
Early Learning and Childcare Stakeholder Forum (ELCSF)	The ELCSF is the main consultation mechanism between the Early Learning and Childcare division of DCEDIY and the stakeholders in the ELC and SAC sector. The membership includes stakeholder groups representing children, families, childcare providers, childcare staff, academics and other groups with an interest in ELC. State bodies and agencies involved in the regulation or delivery of ELC are also members of the forum. These include Tusla (the child and family agency), Pobal and the Department of Education.
Earnings before tax and interest (EBIT) (margin)	EBIT (earnings before interest and tax) is another term for operating profit, and the EBIT margin is the EBIT as a percentage of total revenue.
Employment Regulation Order (ERO)	An ERO for ELC and SAC came into effect on 15th September 2022. Drawn up by a new Joint Labour Committee (JLC) for the sector, it fixes minimum rates of pay and conditions of employment for various staff roles in the sector.

Term	Explanation
Employment Wage Subsidy Scheme (EWSS)	The EWSS was a special measure to support employers with the impact of the Covid-19 pandemic. EWSS at enhanced rates (from October 2020 to January 2022) covered on average 80% of payroll costs and 50% of total operating costs. Standard EWSS (from August 2020 to October 2020 and for February 2022) covered on average 50% of payroll costs and 38% of total operating costs. The flat rate of €100 from March to April 2022 covered on average 25% of staff costs or 11% of total operating costs.
For-profit services	For-profit services exist primarily to generate a profit, that is, to take in more money than they spend. The owners may keep the money themselves, re-invest it in the business or share it with employees through various types of compensation plans.
Full day care	Structured day care for more than five hours per day. Providers include day nurseries and crèches.
Graduate premium	Core Funding contains two types of graduate premiums for ELC services. The graduate lead educator premium is paid as a top-up on the number of hours of provision that are led by a graduate with a relevant qualification and three years' experience. The graduate manager premium is paid as a top-up on the number of hours of operation of a service whose manager is a graduate with a relevant qualification and three years' experience.
Higher capitation	Prior to the introduction of Core Funding, a higher graduate capitation rate was paid for ECCE for each child in an ECCE session being led by a graduate
Interim funding	Interim funding bridged a funding gap for ELC/SAC services between the end of the Transition Fund and the 15th of September when EROs came into effect and Core Funding began.
Limited company	A limited company is a separate legal entity which is detached from the shareholders and directors. It can be a private limited company (does not trade shares on public exchanges) or a public limited company (does trade shares). Limited companies must have at least one director (who must be on the payroll if taking a salary from the company).

Term	Explanation
LINC (Leadership for Inclusion)	LINC in the Early Years programme is a Level 6 Special Purpose Award (Higher Education) that is designed to support the inclusion of children with additional needs in the early years.
National Childcare Scheme (NCS)	Scheme providing ELC and SAC subsidies for children aged between 24 weeks and 15 years.
Net margin	Net margin is the profit after interest but before tax relative to revenue. (Equivalently, operating profit minus debt payments relative to total revenue.)
Net owner withdrawals	Net owner withdrawals are the value of all withdrawals within a period minus the value of all owner injections within the same period.
Non-contact time/hours	Includes preparation, professional development and consultation with parents or other supporting activities, in-service training and staff meetings.
Not-for-profit (community) service	Not-for-profit services exist to provide a particular service to the community and are typically organised under rules that forbid the distribution of profits to owners. Organisations in the non-profit sector are typically tax-exempt charities or other types of public service organisations which are not required to pay most taxes.
Operating expenditure	All expenditures excluding tax, interest, dividend payments or owner withdrawals.
Operating profit	Operating profit is revenue minus operating expenditure.
Other costs	All operating costs not defined as staff-related or venue-related including materials, equipment, food, cleaning, stationery, computer supplies, subscriptions and membership fees, vehicle costs, advertising, insurance, accountancy and legal fees.
Other DCEDIY revenue	All funding from DCEDIY which is not for ECCE. This includes funding for AIM Level 7, NCS, CCSP, Core Funding, interim funding, transition funding, early years capital and sustainability funding.
Other government revenue	Funding received from government other than that received from DCEDIY.
Owner injections	Injections by the owner are transfers of cash from the owner to a business.

Term	Explanation
Owner withdrawals	Withdrawals by the owner are transfers of cash from a business to its owner. These cash transfers reduce the amount of equity left in a business but have no impact on the profitability of the service.
Parent-paid additional charges	Amounts paid by parents for specified items in the provision of ELC and SAC which are not included in the regular fees.
Parent-paid fees	Fees paid by parents to providers of ELC and SAC.
Payment Related Social Insurance (PRSI)	Mandatory social insurance payment in Ireland.
Pobal	Pobal works on behalf of the Irish Government to provide management and support services to 41 programmes, schemes and services in the areas of Social Inclusion and Equality, Inclusive Employment and Enterprise, and Early Years and Young People.
Programme Support Payment (PSP)	The Programme Support Payment (PSP) was paid to providers to support the additional time required to complete administrative work and activities outside of contact time with children until this function was passed to Core Funding in September 2022.
Regulated child:staff ratio	Childcare regulations require sessional services to have a maximum number of children per adult of three for children aged 0 to 1 years; five for children aged 1 to 2½ years; and 11 for children aged 2½ to 6 years. An additional adult employed under the AIM Level 7 additional capitation does not constitute part of this ratio.
Return on capital employed (ROCE)	The ROCE is earnings before interest and taxes (EBIT) divided by the capital employed.
Revenue	Income received by a service including government funding, parent-paid fees and additional charges, charitable income and fundraising and any other income from public or private sources.
Tusla	Tusla (the Child and Family Agency) is a dedicated State agency responsible for improving wellbeing and outcomes for children including child protection, early intervention and family support services.

Term	Explanation
Quality	Characteristics of ELC and SAC which have effects on children's development, learning and well-being. Includes process quality (the nature of the daily experiences of children) and structural quality (factors that are typically regulated, such as child:staff ratio, group size and staff training/education, and that create the framework for the experiences of children).
School-age childcare (SAC)	Arrangements to provide childcare outside of normal school hours for school-going children, whether provided in formal or home-based settings. This includes before school, after school and school holidays.
Service size	Based on administrative data on capacity (maximum number of children allowed at any point in time) multiplied by the number of hours that the service is open per year (total of session hours). Categories are defined for this report as: small is less than 15,000 annual child hours, medium is 15,000 to 35,000 annual child hours and large is 35,000 or more annual child hours.
Sessional (only) services	Playgroups, crèches, Montessori groups, playschools, naionraí and childminders looking after more than three children. Services normally offer planned programmes consisting of up to 3.5 hours per session and generally cater for pre-school children aged 3 to 5 years. For the purpose of this review, "sessional only" services were defined as those on the Tusla ELC register as sessional without part-time, full-time or childminder registration but including those that offer a school-age option (such as breakfast or after-school club).
Sole trader	A sole trader is a business that is run by an individual who must register with the Revenue as a self-employed person and is authorised to retain all profits once tax payment is complete. Sole traders are often the only employee in the business, but they can have employees once they are registered for employer PAYE (pay as you earn). A partnership is similar to a sole trader in that it is a business with no legal entity but is run by two or more people.

Term	Explanation
Special needs / special educational needs (SEN)	SEN are defined as a restriction in the capacity of the person to participate in and benefit from education on account of an enduring physical, sensory, mental health or learning disability, or any other condition which results in a person learning differently from a person without that condition. Also called additional needs.
Staff costs	Staff-related costs are defined here to include net wages/salaries paid to staff, employers' PRSI, employers' pension contributions, training costs and recruitment.
Sustainability funding	Financial support for ELC and SAC services experiencing financial difficulties operated through local City/County Childcare Committees (CCCs) and Pobal and overseen by DCEDIY.
Transition funding	A transition fund was available to ELC and SAC services between May and August 2022 to support services during the period between the phasing out of the EWSS in April and the introduction of the new Core Funding stream in September.
Venue costs	Venue-related costs are defined here to include rent, mortgage payments, building management fee, rates, light and heat, water, telephone, broadband and internet, and waste disposal.

1 Introduction

Government investment in early learning and childcare (ELC) and school-age childcare (SAC) has risen rapidly in Ireland in recent years. The budget for 2023 increased spending substantially to over €1 billion, reflecting extensions to the National Childcare Scheme (NCS) and the new Core Funding stream. This new Core Funding was part of the new funding model "Together for Better" which implemented recommendations from the Expert Group report "Partnership for the Public Good". Together for Better provides the platform for achieving the objectives of improving quality, affordability, accessibility and sustainability of ELC/SAC.

The new Core Funding stream became effective from September 2022 and 95% of services have signed contracts for it, committing to a freeze on parental fees and other conditions for service improvements. The Core Funding also aims to support the commencement of Employment Regulation Orders (EROs), which established a staff wage structure to improve pay in the sector. However, concerns were raised by members of the Early Learning and Childcare Stakeholder Forum (ELCSF)[1] about the funding of small, sessional services. The view of the Department of Children, Equality, Disability, Integration and Youth (DCEDIY) was that funding available through the various schemes was sufficient to meet the needs of all services, including small, sessional services. But in recognition of the points raised and the concerns expressed, the Minister proposed that an independent review of the finances of these services be commissioned by his Department. Consequently, DCEDIY commissioned Frontier Economics to undertake an independent financial review to provide robust and objective evidence on the financial sustainability and viability of "sessional only"[2] services to inform future developments related to the Department's schemes and policy.

According to the most recent Annual Early Years Profile Report, just under 200,000 children were enrolled in ELC/SAC in Ireland in 2020/21, with 87% under the age of 6. Provision is primarily private: 74% of services were for-profit organisations while 26% were community (not-for-profit) services in 2020/21. In the same period, almost all services offered some sessional care, while 41% offered part-time care, 34% offered full day care and 39% offered care for school children. According to registration data from Tusla, while many services offer sessional care in combination with part or full day care, only 43% of ELC services (1,807 of 4,024 services) are registered as "sessional only".[3]

[1] The ELCSF is currently the main consultation mechanism between the DCEDIY ("the Department") and the stakeholders in the ELC sector. This forum provides stakeholders with the opportunity to raise issues with the Minister and the Department and to contribute to the design of solutions.

[2] For the purpose of this review, "sessional only" services were defined as those on the Tusla ELC register as sessional without part-time, full-time or childminder registration but including those that offer a school-age option (such as breakfast or after-school club).

[3] Figure calculated from collated county data in May 2023 from https://www.tusla.ie/services/preschool-services/early-years-providers/register-of-early-years-services-by-county/.

The review was designed to collect evidence from a small number of services (around 50). This evidence included robust quantitative data (verified by appropriate financial documents) to derive accounting measures of financial viability; other quantitative data to inform on the economic position of services; and qualitative interview evidence to understand services' perceptions of their financial viability. This deep dive approach with a small number of services was needed to ensure that the evidence was robust and could be collected and analysed within a short timeframe to meet policy decision deadlines. The short timeframe and substantial demands for service participation meant that inviting a randomly selected sample of services to participate was unlikely to yield a sufficient number of responses. Instead, all services (around 4,000, although only around 1,800 would be eligible) were invited to submit an expression of Interest to take part, with a maximum of 50 services to be selected for participation. While expressions of interest were submitted for over 50 services, many were not registered as "sessional only" and some were unable to provide the data and verification documentation required for the review. Consequently, the review contains evidence from 12 services.

The findings, therefore, should not be considered as nationally representative, both because they are derived from a small number of services and because there was substantial self-selection in the determination of these participants. Rather, the findings should be understood as identifying a range of financial positions and underlying issues and as providing some insight on whether these issues are likely to be specifically or particularly applicable to certain types of services.

Following the collection of the evidence for this review, additional funding of €28 million was announced for year 2 of the Core Funding, an increase of 11% from year 1.[4] Some of these additional funds are to cover sector growth (€8.47 million), additional support for non-staff overheads (€6.11 million), additional support for administrative staff time (€2.2 million), and to remove the year 3 experience requirement for the graduate premiums (€4 million). The remaining quarter of the additional funding (€7.22 million) will be targeted at improving the sustainability of smaller and sessional services by paying a flat rate allocation of €4,075 in addition to the service base rate and graduate premium to all services registered on the Tusla Register of Early Years Services as sessional only. This is expected to benefit approximately 1,700 sessional only services. DCEDIY stated that this measure will be introduced because:

> *"Sessional services often attract less Core Funding in total because of their business model, which operates for shorter hours than most other service types. However, sessional provision is a key part of the overall early learning and childcare model in Ireland… …a targeted measure is considered in the best interests of all stakeholders and in acknowledging that sessional only provision as an important part of the early learning and childcare delivery model."* (DCEDIY, June 2023[5])

[4] See The Core Funding Year 2 FAQ Guide for further details.

[5] Page 7, The Core Funding Year 2 FAQ Guide.

The remainder of the report is organised as follows:

- Chapter 2 describes the data collection and explains the financial concepts used in the data analysis.
- Chapter 3 presents background information on the characteristics of the 12 services in the review.
- Chapter 4 presents a case study description for each service.
- Annex A describes the data and verification issues in greater detail.
- Annex B examines the key measures of financial viability using verified financial data from 2016 to 2022 for all 12 services.
- Annex C compares financial viability between 2019 (pre-Covid) and 2022 and changes in revenue and expenditure between the first and second parts of 2022, covering the introduction of Core Funding for all 12 services.

In addition, the initial Glossary provides definitions and explanations for key terms and concepts.

2 Methodology

This chapter describes the methodology for the evidence collection and analysis used in the review. The first section describes the process that determined service selection, while the second describes the evidence collection instruments. The third summarises the robustness of the collected data (with further details presented in Annex B) and some important caveats on how the evidence should be interpreted. The penultimate section explains the financial concepts used in the reporting, while the final section describes the approaches used in reporting to protect the identities of the study participants.

2.1 Service participation

Data collection for the review was launched on 2nd February with an online presentation to the Early Learning and Childcare Stakeholder Forum (ELCSF)[6] which described the purpose and format of the review. The presentation encouraged services to participate and gave information on how they could submit an expression of interest (EOI) to be included in the selection process. To be eligible, services were required to submit a completed EOI form confirming three conditions: (i) that they were operating and registered with Tusla as an early years service with a "sessional only" service type;[7] (ii) that they were willing to provide Frontier with validated financial information for the review; and (iii) that they consented for DCEDIY and Pobal to confidentially share administrative data with Frontier for the purpose of the review. An invitation letter and EOI form were sent to all ELC services (around 4,000, although only around 1,800 would be eligible). Seven provider representative members of the ELCSF were also invited to nominate up to three services which would be automatically selected if eligible and two organisations (the National Childhood Network (NCN) and the Federation of Early Childhood Providers (FECP)) nominated services.

Frontier received 40 EOI forms, covering 56 services. Two of the EOIs (covering two services) did not have the requisite consents. A further 19 services were not eligible for the review because they were not registered as "sessional only" services. Some EOIs listed multiple services under the same contact individual and two further services were removed to limit each contact to a maximum of two services. Questionnaires were sent to a total of 33 services, including two pairs to two individuals who submitted an EOI with multiple services.

[6] The ELCSF is the main consultation mechanism between the Early Years division of DCEDIY and the stakeholders in the ELC and SAC sector. The membership includes stakeholder groups representing children, families, childcare providers, childcare staff, academics and other groups with an interest in ELC. State bodies and agencies involved in the regulation or delivery of ELC, including Tusla, Pobal, CCI and the Department of Education, are also members of the Forum.

[7] Sessional services include playgroups, crèches, Montessori groups, playschools, naionraí and childminders looking after more than three children. Services normally offer planned programmes consisting of up to 3.5 hours per session and generally cater for pre-school children aged 3 to 5 years. For the purpose of this review, "sessional only" services were defined as those on the Tusla ELC register as sessional without part-time, full-time or childminder registration but including those that offer a school-age option (such as breakfast or after-school club).

Of these 33 services, four services (the two pairs from two individuals) were removed from the review because they were part of a larger chain of services and separate financial information could not be provided for the relevant setting. A further 12 withdrew before submitting any information. The reasons given for withdrawal were evenly divided between lack of time, specific circumstances (staff ill-health or family issues) and reliance on outsourced accountancy which was not available to assist with the review.

The remaining 17 services were interviewed between 6th and 22nd March. Of the services interviewed, two had a single respondent, four had two respondents and one service had four respondents/interviewees (split over two interviews). The respondents were primarily owners but also included some accountancy and other staff. The average total time of interviewing was 62 minutes per service, ranging from 30 minutes to 105 minutes (with two longer interview durations split into two meetings).[8]

No questionnaires were submitted with complete information, and gaps and inconsistencies were discussed with the services at the interviews. Substantial follow-up by email and telephone was undertaken to attempt to complete the questionnaires and verification of the reported data. On 5th May, it was agreed with DCEDIY that five of the 17 interviewed services had not provided adequate or sufficiently verified data to be included in the review. The final sample contained 12 services which had provided adequate and sufficiently verified data to assess financial viability.

2.2 Data collection

The questionnaire contained seven substantive elements collecting quantitative data on:

(A) Annual accounts for 2016 to 2022 covering revenue, operating expenditure and end of year current liabilities and assets and other financial balance.

(B) Monthly amounts for different sources of revenue in 2022.

(C) Monthly amounts for different types of operating expenditure in 2022.

(D) Monthly amounts for overdraft and other debt costs in 2022 and descriptions of up to five most recent cash flow problems.

(E) Descriptions of up to five most recent loans.

(F) For sole traders, annual owner injections and withdrawals for 2016 to 2021 and monthly owner injections and withdrawals for 2022.

[8] For the 12 services ultimately included in the review, nine services had a single respondent, two services had two respondents and one service had four respondents (split over two interviews). The average total time of interviewing was 69 minutes per service, ranging from 40 minutes to 105 minutes (with two longer interview durations split into two meetings).

(G) The owners' reports of typical weekly total child hours and total staff hours divided into contact and non-contact hours (and divided into owner and other staff for sole traders) for three periods (January to March, April to June and September to December) in 2022.[9]

The interview first followed up with respondents about their questionnaire data, seeking clarification on any inconsistencies or unusual reports and completion of any gaps. The remainder was a semi-structured interview collecting managers'/owners' views on:

- Their understanding of their current financial position and the drivers of this position.
- Whether they had made any recent adjustments to their provision in response to financial conditions.
- Their expectations for changes in their financial viability and provision over the coming year and whether there were any specific changes to government policy that could support their future financial viability.

The interviews were recorded to allow checking of the conversation if needed and were written up as summary notes.

In addition to the evidence collected specifically for the review, DCEDIY and Pobal administrative data was used to provide some background information on the services. This included information on the use of different government programmes and the number of children registered for Early Childhood Care and Education (ECCE) in each year since 2015/16.

2.3 Robustness of the data

In comparison to analysis typically undertaken using unverified survey responses, the questionnaire data used for most of the analysis in this report has a high degree of robustness. Services were required to submit documents against which the information they entered in the questionnaire could be verified. These primarily included formal annual accounts, tax documents, bank statements and credit card statements. In addition, to support the verification, the questionnaire data was also checked for internal consistency, consistency with the interview responses and plausibility of key statistics such as reasonable trends over time and implicit hourly wages.

All accounting data collected in sections A to F of the questionnaire was complete and verified with the following exceptions:

[9] Mean staff hourly pay and mean hourly employer cost were derived as the annual total staff pay and annual total employer cost divided by the owner report of typical total hours for employed staff. Child hours per staff contact hour was derived from the owner reports on typical staff contact hours and typical child hours.

- Section A: no data for 2019 for one service; private income in 2020 and 2021 may have included EWSS payments for another service; and interest payments could not be separately identified from loan repayments in 2021 and 2022 for another service.
- Sections A, D and E: all data prior to 2021 was missing for one service due to a change in service ownership.
- Section A: revenue from EWSS in 2020 and 2021 was verified by consistency with annual accounts and Pobal documents for one service.
- Section B: DCEDIY funding in 2022 could not be broken down into different funding streams for one service and EWSS in 2022 was included in other government income for another service.
- Section B: revenue from EWSS in 2022 was verified by consistency with annual accounts and Pobal documents for one service.
- Section D: cash flow issues in 2022 could not be verified for one service and cash flow issues and debt payments could not be verified for another service.
- Section F: owner injection in 2016 could not be verified for one service.

Annex A details the robustness of the data for the 17 services which were interviewed. Following a discussion with DCEDIY, it was agreed that five of these 17 services and their interview material would not be included in the review due to inadequate questionnaire data. Of the 12 services included in the review, three had no data issues. Of the remaining nine services, four services had some element of missing data, four had some incomplete data verification and one had both some element of missing data and incomplete data verification. These missing data and missing verification issues were minor and none impacted on the overarching financial assessment for the service.

The owners' reports of staff hours and child hours in section G of the questionnaire could not be verified in the same way as for the other sections because it is not required for accounting purposes and does not have formal documentation. However, any unusual numbers of hours which did not tally with session hours were reviewed with services and either confirmed or amended.

It is important to note that the analysis in this report is based on information from only 12 services and, as such, is a summary of a small number of case studies. Even if the review had achieved the collection of data from the maximum number of services that could be included (50 services), the findings could not have been considered to be nationally representative because of the small number of services and because of the substantial self-selection in the determination of the participants. On the one hand, this self-selection may have resulted in a sample over-representing services with financial difficulties because they may have been keen to communicate their position. On the other hand, the resulting sample may have under-represented services with financial difficulties because they were less likely to have the time or ability to participate or had ceased operating. Hence, the findings should be understood as identifying a range of financial positions and underlying issues and providing some insight as to whether these issues may be specifically or particularly applicable to certain service types.

2.4 Measuring financial viability

The aim of the analysis was to consider how well the services met standards of financial viability using standard accounting measures to address the following five questions. The qualitative evidence collected in the interviews on services' understanding and perceptions of their financial situation was used to gather insights on the types of factors that may be driving financial outcomes.

(1) Are revenues, including government funding, sufficient to cover operating costs?

This question was primarily considered using data on the operating profit (revenue minus operating expenditure) and the related EBIT margin (operating profit as a percentage of revenue).

It should be noted that, for sole traders, the service owners contributed a substantial proportion of the total staffing time without any formal pay and the EBIT margin does not account for the cost of this staffing. Although not a part of the formal operating cost or a formal financial liability, a reasonable rate of income for the owner's time could be required for the service to continue to operate.

(2) Are there liquidity issues?

This question was considered using data on the current ratio (ratio of current assets to current liabilities), patterns of income receipts and expenditure payment streams, reliance on overdraft facilities and how liquidity issues had been addressed. However, most services had almost no tangible assets (as opposed to non-tangible assets such as skilled staff or reputation) and low levels of current liabilities. This meant that calculation of the current ratio was of limited value and it is only reported for a few services which provided numbers for current assets and liabilities.

(3) Is profit sufficient to provide an adequate return to capital?

This question was to be considered using data on the ROCE (return on capital employed) and the net margin (profit after interest payments divided by revenue). However, none of the services had formal equity and there were generally no or low levels of debt (often through informal loans), amounting to almost no capital employed. For all of the sole traders, the owner withdrawals were reported to be remuneration for their time, and none saw the withdrawals as a return to any investment, while any injections were seen as addressing short-term cash flow issues rather than long-term investments. Consequently, the ROCE was not calculated and the net margin is reported for a few services which had interest payments on formal overdrafts or loans.

(4) Are cashflows sufficient to meet debt payments?

This question was to be considered using data on the interest coverage (operating profit divided by interest expenses), the use of debt (loans) and any failures to make scheduled payments or breaches of debt covenants. However, no measures of interest coverage were calculated because of the very limited use of formal loans or debt among the services, and a broader analysis of informal borrowing and cash flows issues was undertaken instead.

(5) How reliant is the service on owner injections or equity?

This question was to be considered using data on equity and the debt-to-equity ratio, but none of the services had any formal equity, and owner injections were not used as formal investments into the business.

2.5 Confidentiality of participating services and reporting of findings

Throughout the data collection and analysis, the identities of participating services were held confidentially within the Frontier research team. With the explicit consent of the services submitting an EOI, DCEDIY and Pobal administrative data was shared anonymously with the Frontier research team. In discussing the inclusion criteria for services with inadequate data or verification with DCEDIY, the services' identities were further anonymised with respect to interim findings so that these decisions were not influenced by the findings for any service.

In order to help maintain the confidentiality of services participating in the review, the following were used in the presentation of the analysis and findings:

- Services are referred to with an anonymised letter (A to L) which has no resemblance to the service name and no relation to the service id number used during the data collection.
- Figures for directly reported numbers (such as annual revenue) are rounded, while those for derived numbers (such as the EBIT margin and percentage increases) are left unrounded. Specifically, the Core Funding grant is rounded to the nearest €5,000; annual revenue, expenditure, operating profit and net owner withdrawals to the nearest €5,000 (or €1,000 if less than €5,000); mean monthly owner withdrawals to the nearest €100; and weekly revenues and expenditures to the nearest €100 (or €1 if less than €100). All proportions and changes were calculated using the unrounded numbers, which means that there are some cases where non-zero proportions or changes are presented alongside identical rounded numbers.
- Generic terms (such as "family member") are used for some of the qualitative descriptions.
- All service respondents are referred to as gender-neutral "owners", although respondents did include other staff and individuals connected with the service.

3 Service characteristics

This chapter describes the characteristics of the 12 services included in the review. The first section considers the nature of the provision offered by each service, primarily drawn from administrative data. The second section presents the types of government funding received by each service and changes in ECCE registrations since 2016 (again drawn primarily from administrative data) and the proportion of revenue received from private sources (drawn from the review questionnaire data). Complete profiles of the services, together with a summary of the financial data collected in the review, are presented in Annex A.

The key information from this chapter can be summarised as follows:

- The 12 services contained nine sole traders, one community (not-for-profit) service and two for-profit services, with a broad mix across rural and urban areas and service size. Almost all were open 38 weeks each year and had no children under the age of 2½. (section 3.1)

- All 12 services delivered ECCE in all years of operation since 2016, but two had persistently declining numbers of children registered for ECCE. Some services received Access and Inclusion Model (AIM) support and NCS funding, while two services consistently received a sizeable proportion of revenue from private sources. (section 3.2)

3.1 Provision characteristics

Table 1 presents a summary of the characteristics of the 12 services, primarily drawn from administrative data. The services are ordered by provider type, whether located in a rural or urban area and service size (captured in capacity measured as the maximum number of children allowed at any point in time multiplied by the total number of session hours per year). Child attendance may differ from capacity to the extent that occupancy is less than 100% (not all places are filled), but the capacity measure broadly captures the variation in the size of delivery across services. The sample divided into five sole traders in rural areas, four sole traders in urban areas and three other types of service (two private providers and one community provider), split across rural and urban areas. One service (service D) was part of a multisite chain. Almost all were open for 38 weeks each year and had a youngest child aged 2½ years.

Data collected during the review revealed that three of the services only began operating in 2018/19 (services A and C) and in 2019/20 (service F). One other service (K) had new ownership in January 2022 and could not provide any data for before 2021. The remaining eight services had all been in operation with the same owners since before 2016, although service J converted from being a sole trader to a private for-profit service in September 2022.

Table 1 Service characteristics

	Location	Size	Sessions	Single site or multisite	Annual weeks open	Youngest child age
Rural sole traders						
A	Rural	Small	Single session	Single site	38 weeks	2½ years
B	Rural	Small	Single session	Single site	38 weeks	2½ years
C	Rural	Small	Single session	Single site	38 weeks	2½ years
D	Rural	Small	Single session	Multisite	38 weeks	2½ years
E	Rural	Large	Multiple sessions	Single site	38 weeks	2½ years
Urban sole traders						
F	Urban	Medium	Morning and afternoon sessions	Single site	44 weeks	2½ years
G	Urban	Medium	Multiple morning sessions	Single site	38 weeks	Under 2 years
H	Urban	Medium	Morning and afternoon sessions	Single site	38 weeks	2½ years
I	Urban	Large	Multiple afternoon sessions	Single site	38 weeks	2½ years
Other private for-profit						
J	Rural	Small	Single session	Single site	38 weeks	2½ years
K	Urban	Medium	Morning and afternoon sessions	Single site	38 weeks	2½ years
Community						
L	Rural	Small	Single session	Single site	38 weeks	2½ years

Source: *DCEDIY and Pobal administrative data and review questionnaire data*

Note: *Size is based on administrative data on capacity (maximum number of children allowed at any point in time) multiplied by the number of hours that the service is open per year (total of session hours).Small is less than 15,000 annual child hours, medium is 15,000 to 35,000 annual child hours and large is 35,000 or more annual child hours. Service E offered morning and afternoon sessions in the first part of 2022 and only multiple morning sessions in the second part of 2022. For service F, the administrative data indicated one session per day but the service reported two sessions per day (one in the morning and one in the afternoon) for 2022.*

3.2 Government funding

Table 2 presents the sources of government funding received by each service in 2022/23, again primarily drawn from administrative data. All 12 services received ECCE funding and six (predominantly medium or large) services had AIM support. Only four services received funding from NCS, three of which were in urban areas. As would be expected, the amount of the Core Funding grant was closely related to the service size, while receipt of the graduate premium under Core Funding matched receipt of higher capitation under ECCE for all services, with two having received neither (there was no information on ECCE in 2021/22 available for services J and K).

Table 2 Government funding sources

	Government funding in 2022/23				Graduate funding	
	ECCE	AIM levels	NCS	Core Funding grant	Graduate capitation 2021/22	Graduate premium 2022/23
Rural sole traders						
A – small	yes	none	no	€5k	yes	yes
B – small	yes	none	no	€10k	yes	yes
C – small	yes	none	no	€5k	no	no
D – small, multisite	yes	4	no	€10k	yes	yes
E – large	yes	4,5,7	no	€35k	yes	yes
Urban sole traders						
F – medium, 44 weeks	yes	7	yes	€25k	yes	yes
G – medium, under 2s	yes	4	yes	€20k	yes	yes
H – medium	yes	none	no	€15k	yes	yes
I – large	yes	4,7	no	€45k	yes	yes
Other services						
J – for-profit, rural, small	yes	none	no	€5k	*	yes
K – for-profit, urban, medium	yes	7	yes	€20k	*	yes
L – community, rural, small	yes	none	yes	€10k	no	no

Source: DCEDIY and Pobal administrative data and review questionnaire data

Note: Core Funding grant is rounded to the nearest €5,000. For service I, the administrative data indicated receipt of NCS, but no income was received from NCS in 2022. For service K, the administrative data indicated no receipt of AIM funding, but the service received funding for AIM Level 7 in autumn 2022. This may reflect a difference in entitlement and payment timing.

Table 3 shows the patterns in the number of children registered for ECCE (drawn from administrative data) as year-on-year percentage changes.[10] The mean number of registrations across all years for which the data was available was 12 children for the six small services, 29 children for the four medium services and 66 children for the two large services. Hence, a 10% change represents, on average, around one child for the small services, three children for the medium services and six children for the large services. The final column in the table shows the change in typical weekly child hours in 2022[11] for all children (of all ages and including ECCE and parent-paid hours) reported by owners in the review questionnaire.

There are four broad patterns in the ECCE registrations:

- Three services (A, F and H) had relatively little change.
- Four services (B, D, G and I) primarily had one large expansion, typically not long after the service opened and with the absolute changes in numbers suggesting that there could have been an increase in the number of sessions.
- Two services (C and E) had persistent declines in recent years. Service G also had a substantial decline in the number of registered children in 2021.
- The remaining service (L) had substantial changes in most years, but these reflect changes of one or two children for a service with very few registrations.

Half of the 12 services had declines in the number of registrations in both 2021 and 2022, but this was not so different from the proportions in 2018 to 2020.

Comparing the final two columns in table 3 shows that the changes in child hours for all children in 2022 (derived from owners' reports of the child hours) broadly aligned with the changes in ECCE registrations. Some of the differences between the two measures could have been due to changes in hours rather than numbers of children or in the numbers of parent-paid hours. In the case of service L, the reduction in government-funded hours in 2022 was more than offset by an increase in parent-paid hours.

[10] There was no data on ECCE registrations prior to 2022 for services J and K so no patterns can be reported in table 3.

[11] This is the change in typical number between January to June 2022 and September to December 2022 and corresponds in timing to the change in ECCE registrations presented for 2022 which measures the change between the school years 2021/2022 and 2022/23.

Table 3 Year-on-year change in ECCE registrations and owner-reported child hours

	Change in ECCE registrations							Change in owner-reported child hours
	2016	2017	2018	2019	2020	2021	2022	2022
Rural sole traders								
A – small					0%	10%	0%	0%
B – small		14%	175%	0%	- 9%	10%	0%	0%
C – small, no grad.	33%	5%	-19%	0%	- 12%	- 27%	- 18%	-18%
D – small, multisite, AIM					92%	- 4%	- 18%	- 2%
E – large, AIM	62%	- 2%	- 12%	- 8%	- 1%	- 18%	- 13%	- 21%
Urban sole traders								
F – medium, 44 weeks, AIM, NCS					- 14%	6%	0%	2%
G – medium, under 2s, AIM, NCS	113%	0%	- 9%	0%	3%	- 38%	- 5%	- 2%
H – medium	15%	6%	- 6%	- 3%	7%	- 6%	0%	0%
I – large, AIM	96%	11%	- 12%	16%	29%	- 12%	- 3%	0%
Other types								
J – for-profit, rural, small								0%
K – for-profit, urban, medium, AIM, NCS								- 2%
L – community, rural, small, no grad.	- 67%	200%	0%	- 33%	0%	150%	- 60%	37%

Source: DCEDIY and Pobal administrative data and review questionnaire data.

Note: Change in ECCE registrations is the difference in the number of children registered for ECCE in September of the named year and the previous September. Change in child hours in 2022 is the change in typical weekly total hours for all children in the setting reported by the owner between the first part (January to July) and the second part (August to December) of 2022. Services A and D opened in 2018/19 and service F opened in September 2019. Service K had a new owner in January 2022. Services J and K had no ECCE registration data prior to 2022.

Table 4 presents the proportion of revenue received from private (not government) sources for 2016 to 2002, drawing on data collected in the review. This private income includes parent-paid fees and additional charges, charitable donations and fundraising, and income from other private sources. Half of the 12 services received no or only occasional very low levels of private income (A, C, E, F, I and K), while four received higher proportions only in some years (B, D, H and J). Service D received a higher proportion in 2020 and 2021, consistent with the service reporting that it had received NCS funding in these years but had ceased to use NCS funding in 2022 because of the paperwork. Only two services (G and L) consistently received a sizeable proportion of revenue from private sources across the seven-year period.

Table 4 Proportion of revenue from private sources

	2016	2017	2018	2019	2020	2021	2022
Rural sole traders							
A – small				0%	0%	1%	0%
B – small	47%	0%	0%	0%	0%	0%	0%
C – small, no grad.	0%	0%	0%	0%	0%	0%	0%
D – small, multisite, AIM				3%	24%	48%	1%
E – large, AIM	2%	0%	0%	0%	0%	0%	1%
Urban sole traders							
F – medium, 44 weeks, AIM, NCS					0%	0%	0%
G – medium, under 2s, AIM, NCS	53%	31%	33%	27%	19%	22%	26%
H – medium	6%	6%	0%	0%	0%	0%	0%
I – large, AIM	0%	0%	0%	0%	0%	0%	0%
Other types							
J – for-profit, rural, small	18%	5%	2%	3%	0%	0%	7%
K – for-profit, urban, medium, AIM, NCS						3%	2%
L – community, rural, small, no grad.	19%	16%	28%		15%	15%	26%

Source: Review questionnaire data

Note: Services A and D opened in 2018/19 and service F opened in September 2019. Service K had a new owner in January 2022 and could not provide any data for prior to 2021. Annual accounts were not available for the calendar year 2019 for service L. Figures are for year end in July of each year for service F and for year end in June of each year for service G. For service L, the proportion may include EWSS in the years 2020 and 2021.

4 Service profiles

This chapter provides a case study description of each of the services in the review. These accounts combine the verified data collected in the questionnaire with information collected in the interviews.

The verified questionnaire data is summarised in a table at the end of each case study[12]. Further analysis of the questionnaire data across all 12 case studies can be found in Annexes B and C. A description of the derivation of the statistics on the changes between 2019 and 2022 and within 2022 can be found in section C.1 in Annex C. A description of the policy changes introduced in 2022 and other potential sources of revenue changes within the year is presented in section C.3 in Annex C.

Regarding the reporting of the interview information[13], the following caveats should be noted:

- The interview evidence is based upon the subjective views of the owners and staff who participated in the interviews. The responses on future financial positions are particularly subjective and depend upon the individual's personal manner of assessing future possibilities.

- There are a few instances of misunderstanding of some operational details in the government programmes and correct interpretations have been added in footnotes. In other places, clarifying footnotes have been added to the interview responses.

Service A

Background

Service A is a small sole trader, located in a rural area, offering a single session each day for 38 weeks a year to children from the age of 2½ years. It offers ECCE but does not receive AIM or NCS funding. The service opened in 2018/19 and has no staff other than the owner.

Current financial sustainability

Following some growth in the initial year of operation in 2019, the EBIT margin for this service has been around 70%, with a steady flow of owner withdrawals around the level of the operating profit. In 2022, the EBIT margin was 71%, the operating profit was €25k and net

[12] It should also be noted that operating profit and annual net owner withdrawals are reported throughout as amounts rounded to the €5,000 (or nearest €1,000 if less than €5,000).

[13] Services were specifically asked what effect their staffing levels (defined as the number of staff relative to the number of children) had on their financial viability. Childcare regulations require sessional services to have a maximum number of children per adult of three for children aged 0 to 1 years; five for children aged 1 to 2½ years; and 11 for children aged 2½ to 6 years. An additional adult employed under the AIM Level 7 additional capitation does not constitute part of this ratio.

owner withdrawals were €20k. The owner reported that they typically worked 15 contact hours and 17 non-contact hours each week in their service.

No overdraft or debt payments were reported (and the net margin equalled the EBIT margin for all years), but the end-of-year current ratios were less than one, reflecting an excess of current liabilities over current assets at year end. This was consistent with the owner reporting cash flow shortfalls in late 2022 when “wages” to the owner (meaning owner withdrawals) were not paid. There were also regular owner injections throughout 2022 in spite of the net withdrawal for the year, indicating some cash flow issues within the year.

In the interview, the owner reported that the service was staying afloat financially with some difficulty. Financial viability was only possible because the owner had foregone the income they received from the operating profit (expressed as foregoing their “wages”) and because of reductions in expenses and investments in quality. The owner’s reported “foregoing of wages” and compromises on provision quality explains why the owner viewed the service as being in a much weaker financial position than that suggested by the EBIT margin.

Changes since 2019 and during 2022

Drawing comparisons using the questionnaire data between 2019 and 2022 is not insightful for this service because it began operating in 2018/19 when revenue and expenditure were both initially low. There were small changes in financial position within 2022. The weekly revenue was very slightly higher with the introduction of Core Funding and there was no loss in EWSS because the service had no employed staff to be able to claim EWSS. Although the average weekly operating expenditure almost doubled, this was only a small absolute increase due to a training expenditure and depreciation of assets in the second half of 2022. Overall, the EBIT margin was lower in the second half (61% compared to 79% in the first half) and average owner withdrawals had declined at a greater rate than for the operating profit.

In the interview, the owner reported that the total amount of funding had not changed in 2022 (that is, the total of lower ECCE and Core Funding in the second part of 2022 equalled the ECCE funding received in the first part of 2022) but that this ongoing amount had not covered rising costs. The owner had tried to supplement government funding with private income from other child activities, but this had proved difficult.

Costs had risen since 2019 due to general inflation, but also because of additional sanitation expenses which had become the norm since Covid even though they were no longer legal requirements. The owner noted that their “salary” (meaning owner withdrawals) had not changed since 2019 (and had declined in the second part of 2022).

In response to rising costs, the owner reported that, compared to 2019, they were more cautious on expenses (such as for materials) and were no longer investing in improving the service.

Financial drivers

In 2022, revenue was drawn almost entirely from ECCE funding and Core Funding. According to the owner's reports of staff hours in 2022, 47% of all staff time was contact time and the owner contributed an average of 15 contact and 17 non-contact hours each week (constituting all of the staff time). The service delivered an average of 11 child hours per staff contact hour according to the owner's reports of staff contact hours and child hours.

In the interview, the owner confirmed that the service operated "at ratio", meaning that they had 11 children for each staff member.

Future expectations

In the interview, the owner was very concerned for the future operation of the service. They reported that they would continue to operate in 2023, but thought that they might cease operating in 2024/25.

A key factor would be a lack of flexibility to increase the number of children. The service was already operating with 11 children and hiring additional staff to serve more children was not financially viable because the additional income would not cover additional costs, particularly if they were to consider having children funded by AIM support.

Policy changes

In the interview, the owner had several comments on how policy affects their financial position:

- Regarding **funding levels**: Core Funding and ECCE funding are now insufficient because they have not increased with rising costs.[14]

- Regarding the **timing of Core Funding payments**: Core funding should be paid over ten months rather than 12 months in order to match income to when services are open which would reduce cash flow issues.

- Regarding **clarity and complexity**: there is a lack of clarity in communications around funding. Specifically, it is difficult to understand what elements are covered by different funding amounts and when funding will be paid.

- Regarding the **treatment of sessional services**: Core Funding for sessional services should be separated from that for day care services because sessional services have different staff qualification requirements[15] and income sources.

[14] In 2018 the standard ECCE capitation was increased by 7% to €69. For the 2022/23 programme year, all ECCE capitation was paid at a flat rate of €69 per child per week.

[15] The Child Care Act 1991 (Early Years Services) Regulations (2016) states that each employee working directly with children in a pre-school service must hold at least a major award in Early Childhood Care and Education at level 5 on the National Framework of Qualifications or a qualification deemed by the Minister to be equivalent. Additionally, services must ensure that each ECCE room/session has a lead educator holding at least a major award in Early Childhood Care and Education at level 6 or equivalent.

Table 5 Service A

Panel 1: service characteristics	
Sole trader	ECCE
Rural	No AIM
Small	No NCS
Single session	Core funding grant: €5k
Single site	Graduate premium in 2021/22 and 2022/23
Open 38 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources				0%	0%	1%	0%
Revenue				€15k	€30k	€35k	€35k
Operating expenditure				€5k	€10k	€10k	€10k
Operating profit				€5k	€20k	€25k	€25k
EBIT margin				53%	69%	72%	71%
Net margin				53%	69%	72%	71%
Net owner withdrawals				- €1k	€20k	€20k	€20k

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change	
				2019 to Aug/Dec 2022	Jan/July to Aug/Dec 2022
Mean weekly revenue	€300	€900	€1,000	195%	7%
Mean weekly expenditure	€200	€200	€400	144%	93%
EBIT margin	53%	79%	61%	n/a	n/a
Mean net monthly withdrawals	- €100	€1,800	€1,200	n/a	n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	98%	ECCE	84%
	Transition funding	2%	Core Funding	16%
Mean weekly revenue	ECCE	€900	ECCE	€800
	Other DCEDIY	€15	Other DCEDIY	€200
Expenditure types	Staff	0%	Staff	11%
	Venue	18%	Venue	10%
	Other	82%	Other	79%
Mean weekly expenditure	Staff	€0	Staff	€43
	Venue	€36	Venue	€39
	Other	€200	Other	€300

Sources: *DCEDIY and Pobal administrative data and review questionnaire data*

Note: *Small is less than 15,000 annual child hours, medium is 15,000 to 35,000 annual child hours and large is 35,000 or more annual child hours. Core Funding grant is rounded to the nearest €5,000; annual revenue, expenditure, operating profit and net owner withdrawals to the nearest €5,000 (or €1,000 if less than €5,000); and mean monthly owner withdrawals, weekly revenues and expenditures to the nearest €100 (or €1 if less than €100). ECCE revenue includes LINC (Leadership for INClusion). Columns may not sum to 100% due to rounding. Service A opened in 2018/19. For service A, staff costs in the second part of 2022 were for staff training and the increase in other costs was primarily due to depreciation of assets. There are no EWSS payments for service A because the service had no staff. Operating profit for 2019 does not exactly equal the difference between revenue and operating expenditure due to its calculation prior to rounding.*

Service B

Background

Service B is a small sole trader, located in a rural area, offering a single session each day for 38 weeks a year to children from the age of 2½ years. It offers ECCE but does not currently receive any AIM or NCS funding.

Current financial sustainability

Following an increase in both revenue and expenditure just before Covid, operating profit fell in 2020 due to increased operating costs, leading to a decline in the EBIT margin from 34% to around 20% in subsequent years. Owner withdrawals were also lower from 2020 in line with the operating profit. In 2022, the EBIT margin was 20%, the operating profit was €15k and net owner withdrawals were €10k. Revenue for this service was supported by sustainability funding in 2022. The owner reported that they typically worked 15 contact hours and 15 non-contact hours each week in their service.

The service has used formal loans since 2018, with substantial repayments generating a net margin which is slightly lower than the EBIT margin. The owner reported a cash flow issue in late 2022, covered by a payment from personal savings. However, there have not been regular owner injections.

In the interview, the owner reported that the service could keep running but that they were no longer able to make sufficient money from it for their time input, consistent with the decline in owner withdrawals. The owner's report of insufficient income explains why the owner viewed the service as being in a weaker financial position than that suggested by the EBIT margin.

Changes since 2019 and during 2022

While revenue changed little between 2019 and the second part of 2022, it was notably higher in the first part of 2022, with total ECCE and other DCEDIY funding including funding for AIM Level 7. Weekly expenditure increased by almost 40% between 2019 and 2022, with a smaller increase within 2022 due to increased staff costs. Compared to 2019, the higher revenue in the first part of 2022 matched the higher costs creating a similar level of profitability in the EBIT margin as in 2019. But profitability fell substantially in the second part of 2022 (from an EBIT margin of 31% to 10%) due to the lower revenue, and owner withdrawals were commensurately lower.

In the interview, the owner reported that funding for ECCE had not kept pace with rising costs for several years. EWSS had provided little additional income but had been administratively problematic and resulted in them owing money to the Revenue. The owner reported that the service had not benefitted from Core Funding and that the Core Funding payment had to be topped up to ensure that total funding from DCEDIY was not reduced.

The service had taken several measures to reduce costs. The owner reported that they had "reduced their salary", meaning that they were receiving less income from the business in return for their time input. The service had also cut down on some extras such as trips, visitors and experiences.

Financial drivers

In 2022, revenue was drawn from a mix of DCEDIY funding (including for AIM Level 7) and EWSS in the first part of the year. According to the owner's reports of staff hours in 2022, 64% of all staff time was contact time and the owner contributed an average of 15 contact and 15 non-contact hours each week (constituting 43% of all staff time). The service delivered an average of seven child hours per staff contact hour according to the owner's reports of staff contact hours and child hours. Mean staff hourly pay across all employed staff was €15.38 while the mean hourly employer cost was €16.88, according to the verified salary data and the owner's reports of staff hours.

In the interview, the owner noted that this service did not supplement its income by asking parents for monetary support (with a perception that other services did this) because it was not permitted.

The owner acknowledged that they operated with a higher number of staff than required by regulations. They stressed that a staffing level higher than mandated ratios was required to maintain quality and consistency of service, as obtaining suitably qualified temporary staff to cover staff absences was not possible in the way that the government expected. They also felt that more staffing was needed because there were more children since Covid without official AIM support who needed the additional staff support.

The owner noted the importance of valuing staff which had been reflected in good feedback received by the service. However, the owner emphasised that staffing was a considerable financial pressure and only a limited hourly wage rate could be paid. But staff were paid for five weeks a year to cover holidays as signing on was considered arduous and payments often not paid in a timely way.

To improve the financial position, the owner had considered offering additional hours beyond the one daily session of three hours. However, offering more hours was not financially viable because of the need for additional capital investment and the requirement to pay rates for the venue under the new service categorisation that would be required.

Future expectations

The owner was not sure whether the service would continue operating and anticipated that provision changes might be needed if they were to continue.

The owner reported that the key factors for future sustainability would be inflation, the impact of ERO on staff costs and further changes in the owner's income. The owner felt that the ERO would not affect salaries directly, but rising expectations around pay might push up salary costs. They reported that costs would be covered by the end of 2023, but inflation might mean that further cuts to spending would be needed. In addition, their "salary" (meaning the return to their business) would be cut further (noting that their return was already below the minimum wage for their time input).

The owner was also contemplating more substantial changes. These included letting staff run the service while the owner worked elsewhere or simply renting out the property which would give a better return to the owner for less work.

Policy changes

In the interview, the owner had several comments on how policy affects their financial position:

- Regarding **funding levels**: funding amounts need to provide a suitable level of return to owners. The owner felt that they were "underpaid" (meaning under compensated for operating their business) and policy needs to either allow for owners as employees (with appropriate benefits) or let them determine how the business operates.

- Regarding **funding levels for AIM** (Level 7): AIM support needs to be increased to cover appropriate pay levels for AIM staff. The owner reported that current AIM funding does not cover the cost of the required staff member and their salary has to be topped up from other sources.

- Regarding the **graduate premium** in Core Funding: the owner had previously attained a degree to qualify for ECCE higher capitation but now feels that they have lost some of the benefits because of the policy changes, which they see as unjust.[16]

- Regarding **complexity and clarity**: the current funding system is over-complicated, inconsistent and not transparent. For example, it is not clear which scheme payments cover or the timeline they cover. The lack of clarity makes it difficult to plan and budget, for example, it is challenging to deal with a large payment in January and no payment in February.

[16] Graduate capitation under ECCE was based on the number of children participating in the ECCE session being led by a graduate whereas the graduate premium in Core Funding is allocated as a top-up on the number of hours of provision that is led by a graduate. This means that the graduate benefit could be less under Core Funding for services which had large ECCE groups with high occupancy levels. For such services, there was a funding guarantee whereby services received the same level of funding under Core Funding as they received from higher capitation and PSP even if the number of children participating had reduced (assuming that the numbers of graduate staff and the type of service offered were unchanged). Very few services received the funding guarantee: just 62 services from a total of 4,200 services.

Table 6 Service B

Panel 1: service characteristics	
Sole trader	ECCE
Rural	No AIM
Small	No NCS
Single session	Core funding grant: €10k
Single site	Graduate premium in 2021/22 and 2022/23
Open 38 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources	47%	0%	0%	0%	0%	0%	0%
Revenue	€10k	€15k	€35k	€70k	€75k	€80k	€80k
Operating expenditure	€10k	€5k	€25k	€45k	€60k	€65k	€65k
Operating profit	€2k	€10k	€10k	€25k	€15k	€15k	€15k
EBIT margin	18%	56%	28%	34%	21%	20%	20%
Net margin	18%	56%	18%	29%	17%	17%	18%
Net owner withdrawals	€5k	€10k	€10k	€20k	€15k	€15k	€10k

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change	
				2019 to Aug/Dec 2022	Jan/July to Aug/Dec 2022
Mean weekly revenue	€1,800	€2,300	€1,800	3%	- 21%
Mean weekly expenditure	€1,200	€1,600	€1,700	39%	2%
EBIT margin	34%	31%	10%	n/a	n/a
Mean net monthly withdrawals	€1,600	€1,300	€400	n/a	n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	82%	ECCE	85%
	AIM Level 7	9%	Core Funding	15%
	Transition funding	1%		
	Sustainability funding	3%		
	EWSS	6%		
Mean weekly revenue	ECCE	€1,900	ECCE	€1,600
	Other DCEDIY	€300	Other DCEDIY	€300
	Other government	€100		
Expenditure types	Staff	40%	Staff	46%
	Venue	19%	Venue	15%
	Other	41%	Other	40%
Mean weekly expenditure	Staff	€600	Staff	€800
	Venue	€300	Venue	€200
	Other	€700	Other	€700

Sources: DCEDIY and Pobal administrative data and review questionnaire data

Note: See notes for table 5. Service B only received AIM income in the first part of 2022 and not in autumn 2022 for the administrative year 2022/23. Operating profit for 2016 does not exactly equal the difference between revenue and operating expenditure due to its calculation prior to rounding. The percentage change in weekly revenue between 2019 and Aug/Dec 2022 does not exactly equal the difference in the means due to its calculation prior to rounding.

Service C

Background

Service C is a small sole trader, located in a rural area, offering a single session each day for 38 weeks a year to children from the age of 2½ years. It offers ECCE but does not receive any AIM or NCS funding.

Current financial sustainability

The service's revenue has been declining since 2017. Owner withdrawals have similarly declined following an absence of any withdrawals in 2016 and 2017 (which were because the business had not been in operation for long). In 2022, the EBIT margin was 39%, the operating profit was €10k and net owner withdrawals were €10k. The owner reported that they typically worked 15 contact hours and 4 non-contact hours each week in their service.

No overdraft or debt payments were reported (and the net margin equalled the EBIT margin for all years). There were no cash flow shortages reported.

In the interview, the owner gave a positive assessment of the service's current financial position, but reported that the service would not be able to keep operating without Core Funding. The key issue was decreasing parental demand (shown in the decline in numbers of ECCE registrations in table 3) due to a diminishing child population in the area which had led to the decline in revenue.

Changes since 2019 and during 2022

There have been consistent falls in revenue and operating expenditure since 2019. The financial position of the service further deteriorated within 2022. Child hours fell by 18% within 2022 (derived from owner-reported child hours) and ECCE and other government funding fell in spite the introduction of Core Funding. Costs increased within 2022 even though fewer child hours were delivered in the second part of the year (according to the owner's report of child hours). In line with these changes, there was a drop in the EBIT margin in 2022 from 50% in the first half to 17% in the second half. Owner withdrawals have declined since 2019, remaining at a constant proportion of revenue across the period.

In the interview, the owner attributed the decline in revenue and child hours since 2019 to lower demand due to a reduced population of young children in the local area. The owner was positive about the impact of Core Funding in 2022, reporting that the service would have been closed without this support (9% of the service revenue came from Core Funding in the second part of 2022).

On the expenditure side, the wage of the one other member of staff was cut by €50 a week in 2019 in order to reduce costs. The owner also reported that they had tried to reduce other expenditures by reducing spending on replacing broken equipment in 2022.

Financial drivers

In 2022, revenue was drawn almost entirely from ECCE funding and Core Funding. According to the owner's reports of staff hours in 2022, 88% of all staff time was contact time and the owner contributed an average of 15 contact and 4 non-contact hours each week (constituting 56% of all staff time). The service delivered an average of five child hours per staff contact hour according to the owner's reports of staff contact hours and child hours. Mean staff hourly pay across all employed staff was €12.32 while the mean hourly employer cost was €13.43, according to the verified salary data and the owner's reports of staff hours.

In the interview, the owner stressed that their service was vulnerable on the revenue side due to population changes in the area and this was highlighted in all concerns around financial viability.

On the cost side, the owner noted that they were fortunate that their service was not exposed to increased energy prices as these were included in their rent. In addition, costs were lower because they did not pay rent during the summer months when the service was closed.

The owner was apprehensive about expanding their service to improve sustainability as they were unsure of the overall financial viability given that they would need to pay rates for the venue and other increased costs. Moreover, there was little flexibility to increase the number of children as they were constrained by the falling local population.

Future expectations

The owner was very concerned about the future operation of the service. They reported that they were very likely to cease operating in 2023 as current salary levels were not sustainable.

The key reason for their apprehension about the future of their service was the lack of demand in the area and they anticipated further decreases in revenue .

The owner was considering cutting the hours of their single staff member or letting them go altogether. They were exploring options to increase hours or expand into new services such as parent-paid hours for young children, but they were apprehensive about whether there would be sufficient demand and whether the overall impact would be financially beneficial.

Policy changes

In the interview, the owner had several comments on how policy affects their financial position:

- Regarding **Core Funding**: this had a positive impact on the viability of their service. The owner reported that the service would already be closed in the absence of the Core Funding payments.

- Regarding **funding levels**: an increase to Core Funding and/or the ECCE funding rate would help the service to continue operating.

- Regarding the **funding conditions**: permitting the charging of additional fees to parents for extra activities would help to cover some additional costs.

- Regarding **other funding**: grants to replace broken equipment would be helpful as the service cannot afford these purchases in their current financial position.

- Regarding the **ERO**: wage increases are needed to attract and retain the next generation of staff.

Table 7 Service C

Panel 1: service characteristics	
Sole trader	ECCE
Rural	No AIM
Small	No NCS
Single session	Core funding grant: €5k
Single site	No graduate premium in 2021/22 or 2022/23
Open 38 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources	0%	0%	0%	0%	0%	0%	0%
Revenue	€40k	€50k	€45k	€45k	€35k	€35k	€30k
Operating expenditure	€25k	€20k	€30k	€30k	€25k	€20k	€15k
Operating profit	€15k	€30k	€20k	€15k	€15k	€15k	€10k
EBIT margin	40%	60%	39%	37%	36%	38%	39%
Net margin	40%	60%	39%	37%	36%	38%	39%
Net owner withdrawals			€20k	€15k	€15k	€15k	€10k

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change	
				2019 to Aug/Dec 2022	Jan/July to Aug/Dec 2022
Mean weekly revenue	€1,200	€800	€600	- 50%	- 24%
Mean weekly expenditure	€800	€400	€500	- 34%	26%
EBIT margin	37%	50%	17%	n/a	n/a
Mean net monthly withdrawals	€1,500	€1,000	€600	n/a	n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	92%	ECCE	90%
	Transition funding	0.1%	Transition funding	1%
	Other funding / grants	8%	Core Funding	9%
Mean weekly revenue	ECCE	€700	ECCE	€600
	Other DCEDIY	€1	Other DCEDIY	€61
	Other government	€65		
Expenditure types	Staff	56%	Staff	33%
	Venue	29%	Venue	31%
	Other	15%	Other	37%
Mean weekly expenditure	Staff	€200	Staff	€100
	Venue	€100	Venue	€200
	Other	€61	Other	€200

Sources: DCEDIY and Pobal administrative data and review questionnaire data

Note: See notes for table 5. Service C had no withdrawals in 2016 and 2017 because the service had not been operating for long. There is no EWSS because the service used EWSS in 2020 but not in 2022. Operating profit for 2020 and 2022 does not exactly equal the difference between revenue and operating expenditure due to its calculation prior to rounding.

Service D

Background

Service D is a small sole trader, located in a rural area, offering a single session each day for 38 weeks a year to children from the age of 2½ years. It is part of a larger chain of services. It offers ECCE and currently receives AIM funding, but no NCS funding. The service opened in 2018/19 and had a substantial proportion of income from private sources in 2020 and 2021 when it received NCS funding. In 2022, it ceased to operate with NCS because of the volume of paperwork and currently only offers ECCE hours.

There was one issue in the data collection for this service that funding from DCEDIY in 2022 could only be reported as a single amount rather than as separate amounts from different funding streams.

Current financial sustainability

The financial position of the service has fluctuated since opening in 2019, with the EBIT margin ranging from 14% to 44%. The spike in revenue (and operating profit) in 2021 may have been due to receipt of EWSS and/or NCS alongside parent fees. Owner withdrawals steadily increased until 2022, following a smoother path than the operating profit. In 2022, the EBIT margin was 23%, the operating profit was €35k and net owner withdrawals were €55k. The owner reported that they typically worked 15 contact hours and 30 non-contact hours each week in their service.

No overdraft or debt payments were reported (and the net margin equalled the EBIT margin for all years). The end-of-year current ratios were substantially greater than one, reflecting an excess of current assets over current liabilities at each year end and consistent with substantial cash reserves to smooth owner withdrawals. No cash flow issues or loans were reported and the only owner injection was a small one in the initial year of operation.

In the interview, the owner expressed concerns about the service's financial sustainability and calculated that it would be operating in financial deficit in 2023. This assessment reflects a declining financial position during 2022.

Changes since 2019 and during 2022

While revenue changed little between 2019 and the second part of 2022, it was notably higher in the first part of 2022 due to the EWSS payment (while total weekly payments from DCEDIY were slightly higher in the second part of the year). Weekly expenditure increased by a third between 2019 and 2022, but there was little change within 2022. Compared to 2019, the higher revenue in the first part of 2022 did not cover the higher costs, with a lower EBIT margin (27% compared to 36% in 2019), which declined further (to 17%) with the fall in weekly revenue in the second part of 2022. Average owner withdrawals increased dramatically between 2019 and 2022, but this reflected a pattern of withdrawals being paid retrospectively from operating profit.

In the interview, the owner reported that the service was less financially sustainable than in 2019. The main reason given was rising costs. Staff costs had increased since 2019 due to the non-contact time required to meet ongoing Covid precautions (such as cleaning), which were still needed as Covid was still an issue. The phasing out of EWSS meant that the additional non-contact hours were no longer funded (19% of revenue in the first part of 2022 came from EWSS). Rising energy prices and general inflation had also pushed up costs.

Financial drivers

In 2022, revenue was drawn from a mix of DCEDIY funding and EWSS in the first part of the year and almost entirely from DCEDIY funding in the second part of the year. According to the owner's reports of staff hours in 2022, 65% of all staff time was contact time and the owner contributed an average of 15 contact and 30 non-contact hours each week (constituting 28% of all staff time). The service delivered an average of five child hours per staff contact hour according to the owner's reports of staff contact hours and child hours. Mean staff hourly pay across all employed staff was €17.05 while the mean hourly employer cost was €18.96, according to the verified salary data and the owner's reports of staff hours.

Future expectations

The owner calculated that the service would be in deficit in 2023, mainly because funding no longer covered the increases in costs. They were awaiting a decision on sustainability funding. But the owner did not anticipate closing and planned to do whatever was needed to keep the service operating, including possibly reducing wages or other staffing costs (although they wished to avoid making redundancies).

Key factors influencing whether changes to provision would be needed were whether funding would increase to cover the additional non-contact hours required from Covid; the future increases in energy prices and general inflation; and a decision on the application for sustainability funding.

Policy changes

In the interview, the owner had several comments on how policy affects their financial position:

- Regarding **funding levels**: sufficient support for non-contact hours is the greatest issue and this particularly affects smaller businesses. Ideally, services would be paid more money per child.
- Regarding the **graduate premium** in Core Funding: it would be helpful if one person could qualify for both the graduate manager and graduate lead educator premiums as services with the same person in both roles receive a lower level of Core Funding than services with two different people in the roles.
- Regarding the **ERO**: there should be higher pay for staff under the ERO (noting that €15.50 an hour is not much pay for those with a degree). Staff have left to work in primary schools where they can earn more and higher pay is needed to attract and retain staff.

Table 8 Service D

Panel 1: service characteristics	
Sole trader	ECCE
Rural	AIM Level 4
Small	No NCS
Single session	Core funding grant: €10k
Multisite (chain)	Graduate premium in 2021/22 and 2022/23
Open 38 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources				3%	24%	48%	1%
Revenue				€130k	€150k	€210k	€145k
Operating expenditure				€85k	€130k	€120k	€110k
Operating profit				€45k	€20k	€90k	€35k
EBIT margin				36%	14%	44%	23%
Net margin				36%	14%	44%	23%
Net owner withdrawals				€20k	€35k	€55k	€55k

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change	
				2019 to Aug/Dec 2022	Jan/July to Aug/Dec 2022
Mean weekly revenue	€3,500	€4,100	€3,500	3%	- 13%
Mean weekly expenditure	€2,200	€3,000	€2,900	34%	- 1%
EBIT margin	36%	27%	17%	n/a	n/a
Mean net monthly withdrawals	€1,900	€3,700	€6,000	n/a	n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	All DCEDIY	79%	All DCEDIY	99%
	EWSS	19%	Other funding / grants	0.5%
	Other funding / grants	0.3%	Other private income	0.4%
	Parent fees / charges	2%		
Mean weekly revenue	All DCEDIY	€3,200	All DCEDIY	€3,500
	Other government	€800	Other government	€17
	Private	€75	Private	€14
Expenditure types	Staff	80%	Staff	67%
	Venue	5%	Venue	6%
	Other	15%	Other	27%
Mean weekly expenditure	Staff	€2,400	Staff	€2,000
	Venue	€100	Venue	€200
	Other	€500	Other	€800

Sources: DCEDIY and Pobal administrative data and review questionnaire data

Note: See notes for table 5. Service D opened in 2018/19. All DCEDIY income in 2022 was reported as a single amount. The percentage change in weekly revenue between 2019 and Aug/Dec 2022 does not exactly equal the difference in the means due to its calculation prior to rounding.

Service E

Background

Service E is a large sole trader, located in a rural area, which offered morning and afternoon sessions in the first part of 2022 and multiple morning sessions each day in the second part of 2022, covering 38 weeks in the year for children from the age of 2½ years. It offers ECCE and receives AIM funding, but does not receive NCS funding.

Current financial sustainability

The EBIT margin for this service has varied since 2017 between 0% (no operating profit) and 20%. The position was slightly stronger during 2020 and 2021 due to a spike in revenue, possibly due to EWSS. Owner withdrawals have followed a smoother path than operating profit but have still been subject to some fluctuations. In 2022, the EBIT margin was 9%, the operating profit was €20k and net owner withdrawals were €35k. The owner reported that they typically worked an average of 25 contact hours across the year in 2022[17] and 35 non-contact hours each week in their service.

No overdraft or debt payments were reported (and the net margin equalled the EBIT margin for all years). One major cash flow issue was reported for the end of 2022 when wages were reduced and a non-interest loan from a family member was used.

In the interview, the owner reported that the service was in a weak financial position. Falling demand had required several substantial mitigating actions around provision, staffing and staff pay as well as necessitating a loan from a family member. The cash flow issue in late 2022 (resolved by the loan) was seen as a consequence of an ongoing issue in the difference between the school (academic) year and tax (calendar) year, with income streams not aligned with the end-of-year tax bill in December.

Changes since 2019 and during 2022

Both revenue and expenditure were lower in the second part of 2022 than in 2019, while revenue was higher and expenditure lower in the first half of 2022. Profitability was higher in the first half of 2022 than in 2019 and lower in the second half of 2022 than in 2019, with a substantial drop in the EBIT margin within 2022 from 21% in the first part to -16% in the second part. This drop reflected a fall in income from all sources (in line with a 21% decline in child hours in autumn 2022 according to the hours reported by the owner) and considerable increases in staff, venue and other costs (in spite of a 38% reduction in staff hours in the autumn according to the hours reported by the owner). Owner withdrawals followed a similar pattern to operating profit, although they were somewhat higher in the second part of 2022 than would be implied by in profit.

In the interview, the owner reported that the Core Funding had been helpful in compensating for the winding down of EWSS during 2022 (15% of the service revenue had come from EWSS in the first part of 2022). However, the key financial problem have been declining demand for places (captured in the decline in ECCE registrations in table 3) and the corresponding reduction in funding from DCEDIY. The owner reported that demand had declined because parents were increasingly reluctant to drive to the setting and because they increasingly wanted a setting that could offer all day care rather than sessional care.

On the other hand, costs had risen in recent years due to increases in wages, rent and general inflation. In addition, other costs had risen in recent years due to additional sanitation expenses which had become the norm since Covid, even though these were no longer legal requirements.

Several mitigating actions had been taken in response to the weaker financial position in the second part of 2022. The owner had foregone their "pay" (meaning owner withdrawals) in

[17] The typical weekly contact hours for the owner were 30 in the first part of 2022 and 15 in the second part of 2022, creating an annual average of 25 hours per week. The weekly contact hours are consistent with the service offering both morning and afternoon sessions in the first part of 2022 and only operating sessions morning sessions in the second part of the year.

November and December (although the large withdrawal in September had increased the monthly average). Staff pay had been reduced; non-contact hours limited to 15 minutes per day; and one staff member had been replaced with an unpaid staff member in the second part of 2022. The service also reduced its scale of provision to improve financial viability by reducing the number of sessions: the service ceased to offer an afternoon session, which meant fewer staff hours and a reduced salary bill. These actions had helped the service to be financially viable, but the owner expected that the lower pay would not be sustainable in the future.

Financial drivers

In 2022, revenue was drawn was drawn primarily from a mix of DCEDIY funding (including for AIM Level 7) and EWSS in the first part of the year, while almost all funding came from DCEDIY in the second part of the year. According to the owner's reports of staff hours in 2022, 58% of all staff time was contact time and the owner contributed an average of 25 contact and 35 non-contact hours each week (constituting 18% of all staff time). The service delivered an average of six child hours per staff contact hour according to the owner's reports of staff contact hours and child hours. Mean staff hourly pay across all employed staff was €15.04 while the mean hourly employer cost was €16.49, according to the verified salary data and the owner's reports of staff hours.

Future expectations

The owner did not anticipate ceasing to operate the service, but this continued operation was dependent upon future developments.

Future demand would be the key factor. The owner was considering measures to increase demand, with possible options of offering additional services such as day care or breakfast clubs. Other factors would be whether staff would leave because of low wages and further cost rises, including rent increases. Another concern was the repayment of the loan taken at the end of 2022 and whether there were other borrowing options to help manage the debt.

Policy changes

In the interview, the owner had two comments on how policy affects their financial position:

- Regarding **Core Funding**, payments should be higher at the calendar year end to cover high costs in December. The current payment structure is not helpful because expenses are high in December (for tax payments and staff Christmas benefits), while payments are made in June and July when the service is closed. A viability fund could be provided at the end of the calendar year to support services through the year end.

- Regarding the **conditions for funding**, fundraising could be permitted for private services (as it is currently for community services) to support financial viability.

Table 9 Service E

Panel 1: service characteristics	
Sole trader	ECCE
Rural	AIM Levels 4, 5 and 7
Large	No NCS
Multiple sessions	Core funding grant: €35k
Single site	Graduate premium in 2021/22 and 2022/23
Open 38 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources	2%	0%	0%	0%	0%	0%	1%
Revenue	€185k	€235k	€270k	€255k	€310k	€345k	€245k
Operating expenditure	€145k	€170k	€220k	€255k	€260k	€275k	€225k
Operating profit	€40k	€65k	€45k	€0k	€45k	€70k	€20k
EBIT margin	21%	28%	17%	0%	15%	20%	9%
Net margin	21%	28%	17%	0%	15%	20%	9%
Net owner withdrawals	€20k	€35k	€30k	€20k	€25k	€40k	€30k

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change	
				2019 to Aug/Dec 2022	Jan/July to Aug/Dec 2022
Mean weekly revenue	€6,800	€7,100	€5,500	- 18%	- 22%
Mean weekly expenditure	€6,800	€5,600	€6,400	- 5%	14%
EBIT margin	0%	21%	- 16%	n/a	n/a
Mean net monthly withdrawals	€1,800	€2,700	€2,400	n/a	n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	66%	ECCE	81%
	AIM Level 7	6%	AIM Level 7	8%
	Early years capital	2%	Core Funding	10%
	Transition funding	11%	Other funding / grants	1%
	EWSS	15%	Parent fees / charges	0.4%
	Parent fees / charges	1%		
Mean weekly revenue	ECCE	€4,700	ECCE	€4,500
	Other DCEDIY	€1,300	Other DCEDIY	€1,000
	Other government	€1,000	Other government	€63
	Private	€51	Private	€23
Expenditure types	Staff	77%	Staff	74%
	Venue	12%	Venue	12%
	Other	11%	Other	14%
Mean weekly expenditure	Staff	€4,300	Staff	€4,800
	Venue	€700	Venue	€800
	Other	€600	Other	€900

Sources: *DCEDIY and Pobal administrative data and review questionnaire data*

Note: *See notes for table 5. Operating profit for 2018 and 2020 does not exactly equal the difference between revenue and operating expenditure due to its calculation prior to rounding.*

Service F

Background

Service F is a medium-sized sole trader, located in an urban area, offering morning and afternoon sessions each day for 44 weeks a year to children from the age of 2½ years. It offers ECCE and receives AIM and NCS funding. The service opened in September 2019, which means that there are no comparisons with 2019.

There was one small data collection issue that EWSS payments could not be separately identified and were included in the amounts for other government funding and grants.

Current financial sustainability

Over the three years of operation, the EBIT margin has fallen slightly from 42% in 20202 to 33% in 2022 (noting that the annual figures are for end of July rather than calendar year end). Owner withdrawals have been in line with the operating profit (both being slightly higher in

2021). In 2022, the EBIT margin was 33%, the operating profit was €35k and net owner withdrawals were €25k. The owner reported that they typically worked 15 contact hours and 8 non-contact hours each week in their service.

No overdraft or debt payments were reported (and the net margin equalled the EBIT margin for all years). The end-of-year current ratios were substantially greater than one, reflecting an excess of current assets over current liabilities at each year end. However, cash flow issues were reported for early 2022 and early 2023, which were covered by borrowing from a family member.

In the interview, the owner reported that the service was financially viable, but also noted that profitability had declined recently and viability was reliant on a decline in the income received by the owner.

Changes since 2019 and during 2022

Comparisons could not be drawn with 2019 because the service only opened in September of that year. Revenue and expenditure were higher in the second part of 2022 than in the first part with a similar rate of change (9% and 16%), although there were no notable changes in staff or child hours (according to the owner's report of child hours). On the revenue side, the service received substantially greater total weekly funding from DCEDIY after the introduction of Core Funding. The rate of profit was similar and owner withdrawals identical across the two parts of 2022.

In the interview, the owner reported that the main change in their finances had been to costs. They reported that the greatest change had been an increase in staff wages under ERO, although increasing energy prices and general inflation had also raised costs. In addition, the owner reported that the recent addition of special needs children meant that they had been operating closer to a child:staff ratio of eight rather than 11, as they had done previously, which had increased staff costs.

In response to the rising costs, the service had tried to reduce material expenditures but this had been limited by the need to maintain quality for children. In addition, they had reduced the amount they "paid" themselves, reducing the payment from €500 a week to €400 a week (and the questionnaire data indicated a decline in owner withdrawals between 2021 and 2022).

Financial drivers

In 2022, revenue was drawn was drawn from a wide mix of DCEDIY funding (including for AIM Level 7, NCS and CCSP as well as ECCE and Core Funding) and from EWSS in the first part of the year. According to the owner's reports of staff hours in 2022, 91% of all staff time was contact time and the owner contributed an average of 15 contact and 8 non-contact hours each week (constituting 37% of all staff time). The service delivered an average of six child hours per staff contact hour according to the owner's reports of staff contact hours and child hours. Mean staff hourly pay across all employed staff was €12.37 while the mean hourly employer cost was €15.16, according to the verified salary data and the owner's reports of staff hours.

In the interview, the owner reported that they normally operated "at ratio" of 11 children per staff member, but the recent addition of special needs children meant it had to operate at closer to a ratio of eight children per staff member.

The owner also reported that they had considered reducing some staff benefits to reduce costs (such as removing the paid two weeks leave over Easter which were given so that staff do not have to sign on). But they had decided not to do so for fear that removing the leave or reducing other benefits would lose staff.[18] The owner also felt that there was not much more that could be done to cut costs without reducing the quality of the experience for the children.

Future expectations

The owner expected to be financially sustainable at the end of 2023 with a reasonable (but not high) "wage" for themselves (meaning owner withdrawals).

The key factor going forward was whether there would be sufficient parent demand to increase revenue by offering an afternoon session and additional sessions for two to three weeks in the summer. The owner was also expecting rent increases and other costs to continue to rise.

Policy changes

In the interview, the owner had several comments on how policy affects their financial position:

- Regarding **funding levels**: funding levels need to be increased to adequately cover staff pay for 42 weeks rather than 38 weeks[19] and a VAT reduction or more funding per child would also be helpful.

- Regarding the **timing of funding payments**: prompt payment of funding would be helpful.

- Regarding the **administrative burden**: the paperwork for funding should be reduced, particularly to reduce the burden on owner's time over the summer.

[18] DCEDIY reported that ECCE funding rates and Core Funding for non-contact time cover pay, employer's costs and statutory leave. Under statutory requirements, staff are entitled to 8 hours of paid holiday for every 100 hours worked (or 8% of time worked). For staff working 38 weeks, this amounts to around three weeks of paid holiday leave.

[19] See footnote 18 for a description of the current funding for staff leave.

Table 10 Service F

Panel 1: service characteristics	
Sole trader	ECCE
Urban	AIM Level 7
Medium size	NCS
Morning and afternoon sessions	Core funding grant: €25k
Single site	Graduate premium in 2021/22 and 2022/23
Open 44 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources					0%	0%	0%
Revenue					€75k	€110k	€100k
Operating expenditure					€45k	€65k	€65k
Operating profit					€30k	€45k	€35k
EBIT margin					42%	42%	33%
Net margin					42%	42%	33%
Net owner withdrawals					€25k	€40k	€25k

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change	
				2019 to Aug/Dec 2022	Jan/July to Aug/Dec 2022
Mean weekly revenue		€2,200	€2,400		9%
Mean weekly expenditure		€1,500	€1,700		16%
EBIT margin		35%	30%		n/a
Mean net monthly withdrawals		€1,900	€1,900		n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	49%	ECCE	47%
	AIM Level 7	8%	AIM Level 7	8%
	NCS	17%	NCS	13%
	CCSP	4%	CCSP	7%
	Transition funding	3%	Core Funding	17%
	EWSS / other funding / grants	20%	Other funding / grants	8%
Mean weekly revenue	ECCE	€1,100	ECCE	€1,200
	Other DCEDIY	€700	Other DCEDIY	€1,100
	Other government	€400	Other government	€200
Expenditure types	Staff	58%	Staff	50%
	Venue	30%	Venue	29%
	Other	12%	Other	20%
Mean weekly expenditure	Staff	€800	Staff	€900
	Venue	€400	Venue	€500
	Other	€200	Other	€300

Sources: DCEDIY and Pobal administrative data and review questionnaire data

Note: See notes for table 5. Service F opened in September 2019 and there are no comparisons with 2019. The administrative data indicated one session per day but the service reported two sessions per day (one in the morning and one in the afternoon) for 2022. Annual figures are for year end in July of each year. The service received NCS payments but no parent-paid fees and EWSS payments were included in other government funding and grants.

Service G

Background

Service G is a medium-sized sole trader, located in an urban area, offering multiple morning sessions each day for 38 weeks a year to children from under the age of two. It offers ECCE and receives AIM and NCS funding and also receives a substantial proportion of revenue from private sources. The service has been in operation for around 20 years.

Current financial sustainability

The rate of profit for this service has declined since 2017, with the EBIT margin declining from 34% to 18%. Both revenue and expenditure have been rising since 2016, although the amount of operating profit and owner withdrawals have fluctuated around a similar level across the period, leading to the decline in the EBIT margin. Owner withdrawals have been in line with the operating profit throughout. In 2022, the EBIT margin was 18%, the operating profit was

€30k and net owner withdrawals were €15k. The owner reported that they typically worked 10 contact hours and 20 non-contact hours each week in their service.

No overdraft or formal debt payments were reported (and the net margin equalled the EBIT margin for all years). The end-of-year current ratios (reported for two years) were one and slightly greater than one, reflecting a balance in current assets and current liabilities at each year end. One cash flow issue was reported for the end of 2022, which was covered by the owner's personal funds and a delay of payment of owner withdrawals.

In the interview, the owner reported that the service was in a poor financial position and they feared it would cease operating in June (2023). They had been turned down for sustainability funding and the business was considerably in debt to the owner. The owner stressed that the business had never used an overdraft or a loan and that using personal savings to address the cash flow issues had meant substantial detrimental impacts on their personal financial position. The recent downturn in profitability and need for owner injections in 2022 explain the owner's more negative assessment of the financial position than the annual EBIT margin suggests.

Changes since 2019 and during 2022

There was little difference in weekly expenditure between 2019 and 2022, but weekly revenue was considerably lower in the second part of 2022 than in the first part of 2022 and in 2019. Consequently, profitability switched from being marginally positive to marginally negative during 2022 (from an EBIT margin of 9% to an EBIT margin of -5%) and net owner withdrawals switched from positive to negative (i.e. on balance, the owner switched from drawing a return to injecting funds). The decline in revenue within 2020 reflected the loss of a substantial EWSS payment, with little change in the total DCEDIY funding. The small decline in weekly expenditure between the first and second parts of 2022 reflected a reduction in staff hours of 11% (derived from the owner's reported staff hours).

In the interview, the owner reported that the main drivers of the decline in financial position were related to government funding:

- ECCE funding was insufficient without a and needed to be topped up with parental contributions, but Core Funding no longer permitted this.[20] The questionnaire data indicated that these contributions had constituted an average of €650 per month or around 5% of income.

[20] Before and under Core Funding, services cannot charge for any activities which are considered key parts of the ECCE curriculum and cannot accept voluntary donations or other parental contributions, but they may charge for optional extras selected from a list of approved ECCE Optional Extras. As a condition of receiving Core Funding, a Partner Service agrees not to increase the fee for any service type which was extant on 30th September 2021 or introduce an extra charge for any component of that service type. Introducing a new additional service and charging a fee is permissible under Core Funding provided that it is entirely optional to parents.

- The Core Funding graduate premium was lower than the benefit they received from the higher capitation in ECCE.[21]

- Demand for this sessional service had been reduced by an increasing parental preference for services offering longer hours (part-time or full-time care rather than sessional care) which had been further reinforced by the enhanced generosity of the National Childcare Scheme from January 2023. ECCE registrations had declined in 2021 and 2022 (shown in table 3) and the owner reported (at the time of interview in March 2023) that the service had already lost three children in 2023 for this reason.

- Staff costs had increased in 2022 because of the unpaid time required for the additional administration for Core Funding; the paperwork for the NCS; and the staff courses required under the quality plan for Core Funding.[22]

The service had applied for sustainability funding but had been turned down and the owner reported that this decision could determine the continued operation of the service. The owner had found the application process for the funding difficult to complete, with the intermediary in the County Childcare Committee unable to understand what Pobal needed. The application figures from the service had been questioned and the final decision delivered without any clear explanation.

In response to the financial pressures, paid staff holidays had been reduced in September 2022 from 25 days to between 15 and 19 days. Spending had been reduced and supplies had been rationed but this was not how the owner wished the service to operate.

The service started taking children from under age two in September 2022, but the financial benefit was limited by the fact that fee rates were constrained to those for September 2021.

Financial drivers

In 2022, revenue was primarily drawn from DCEDIY and other government funding, but a substantial proportion also came from parent-paid fees, additional charges and charitable fundraising. According to the owner's reports of staff hours in 2022, 71% of all staff time was contact time and the owner contributed an average of 10 contact and 20 non-contact hours each week (constituting 19% of all staff time). The service delivered an average of four child

[21] See footnote 16 for an explanation of the impact of the change from the graduate capitation in ECCE to the graduate premium in Core Funding.

[22] A new requirement for Core Funding is developing, implementing and reporting on a Quality Action Plan. Services are required to select and complete at least one of the following five options as part of their Quality Action Plan. (1) Implement improvements identified in Inspection Reports (either Tusla or Department of Education Inspectorate). (2) Participate in quality engagement actions through the Better Start Quality Development Service. (3) Participate in National Síolta Aistear Initiative (NSAI) continuing professional development opportunities. (4) Review policies and procedures, as part of the requirements of Regulation 14 and schedule 5 of the Child Care Act 1991 (Early Years Services) Regulations 2016 and/or schedule 6 of the Child Care Act 1991 (Early Years Services) (Registration of School Age Services) Regulations 2018. (5) Participate in quality improvement activities (workshops, information sessions, communities of practice and/or mentoring) through state-funded services.

hours per staff contact hour according to the owner's reports of staff contact hours and child hours. Mean staff hourly pay across all employed staff was €17.37 while the mean hourly employer cost was €21.09, according to the verified salary data and the owner's reports of staff hours.

In the interview, the owner reported that they operated at required ratios. The receipt of AIM funding and delivery to children under the age of two would mean that they operated with fewer than 11 children per staff member. The owner reported that they would not want to operate with lower levels of staffing as it would affect the quality of care.

Staff costs were also higher because the staff received paid holiday days. In addition, the service operated from a shared space in a community venue which required classrooms to be set up and taken down every day, requiring substantial staff non-contact time.

The owner reported that they would like to enhance their financial position by expanding their provision but faced substantial barriers to doing so. They wanted to change from being a sessional only service to part-time provision in order to have additional parent-paid hours. However, a change in the Tusla registration from education to childcare would have been required which would have needed a change in building planning permission which was not feasible.[23] Instead, they are considering an expansion of the service to include a breakfast club and/or after-school session which would allow it to maintain the sessional status.

Future expectations

The owner reported that they would like the service to continue in operation beyond summer 2023, but it was uncertain that it would do so. Subsequent to this assessment, the application for sustainability funding was turned down.

The key factors for continued operation (prior to the sustainability funding decision) were how much parent demand would change due to the attraction of part-time provision and whether the service could expand its provision to include a breakfast club and/or after-school session.

Policy changes

In the interview, the owner had two comments on how policy affects their financial position:

- Regarding **funding levels**: the ECCE rate should be increased to cover the loss of parental contributions due to Core Funding[24] and the wage increases due to the introduction of the ERO.

[23] An education registration is a non-commercial enterprise, while a registration as childcare is a commercial business, which also means that the service would have to pay commercial rates.

[24] See footnote 19 for an explanation of the conditions on additional charges for parents under ECCE and Core Funding.

- Regarding the **ERO**[25], rates should reflect the value of experience as well as formal qualifications to support the recruitment of good staff[26] (service G).

Table 11 Service G

Panel 1: service characteristics	
Sole trader	ECCE
Urban	AIM Level 4
Medium size	NCS
Multiple morning sessions	Core funding grant: €20k
Single site	Graduate premium in 2021/22 and 2022/23
Open 38 weeks per year	
Youngest child under age 2 years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources	53%	31%	33%	27%	19%	22%	26%
Revenue	€95k	€125k	€135k	€150k	€145k	€200k	€170k
Operating expenditure	€70k	€80k	€105k	€125k	€120k	€160k	€140k
Operating profit	€25k	€40k	€30k	€25k	€25k	€40k	€30k
EBIT margin	24%	34%	22%	17%	17%	21%	18%
Net margin	24%	34%	22%	17%	17%	21%	18%
Net owner withdrawals	€20k	€30k	€25k	€20k	€20k	€30k	€15k

[25] ERO rates are determined by the Joint Labour Committee in an independent process between employer and employee representatives.

[26] ERO rates of pay depend on job position and whether the person is considered a graduate. For an individual to qualify for the graduate ERO rate, they must have completed an appropriate qualification (QQI Level 7 or higher) as per the Department's Higher Capitation Qualifications list and have a minimum of three years' work experience in the sector.

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change: 2019 to Aug/Dec 2022	% change: Jan/July to Aug/Dec 2022
Mean weekly revenue	€4,000	€3,900	€3,100	- 23%	- 21%
Mean weekly expenditure	€3,300	€3,500	€3,200	- 3%	- 9%
EBIT margin	17%	9%	- 5%	n/a	n/a
Mean net monthly withdrawals	€1,900	€2,700	- €500	n/a	n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	46%	ECCE	46%
	AIM Level 7	5%	NCS	4%
	NCS	3%	Core Funding	19%
	Transition funding	1%	Parent fees / charges	31%
	EWSS	23%		
	Other funding / grants	2%		
	Parent fees / charges	16%		
	Charitable / fundraising	4%		
Mean weekly revenue	ECCE	€1,800	ECCE	€1,400
	Other DCEDIY	€300	Other DCEDIY	€700
	Other government	€1,000	Private	€1,000
	Private	€800		
Expenditure types	Staff	75%	Staff	80%
	Venue	11%	Venue	13%
	Other	13%	Other	7%
Mean weekly expenditure	Staff	€2,700	Staff	€2,600
	Venue	€400	Venue	€400
	Other	€500	Other	€200

Sources: *DCEDIY and Pobal administrative data and review questionnaire data*

Note: *See notes for table 5. Annual figures for service G are for year end in June of each year. Operating profit for 2017 does not exactly equal the difference between revenue and operating expenditure due to its calculation prior to rounding.*

Service H

Background

Service H is a medium-sized sole trader, located in an urban area, offering morning and afternoon sessions each day for 38 weeks a year to children from the age of 2½ years. It offers ECCE, but currently receives no AIM or NCS funding. The service has been in operation for over 20 years.

Current financial sustainability

The EBIT margins for this service have been consistently around 50% or higher and there has been small gradual growth in revenue and operating expenditure since 2016. Owner withdrawals have steadily risen in line with the operating profit. In 2022, the EBIT margin was 58%, the operating profit was €70k and net owner withdrawals were €55k. The owner reported that they typically worked 30 contact hours and 23 non-contact hours each week in their service.

No overdraft or debt payments were reported (and the net margin equalled the EBIT margin for all years). Cash flow issues involving relatively small amounts were reported for 2017 and for late 2022 and were addressed using borrowing from a family member. There were also some small owner injections in 2022.

In the interview, the owner acknowledged that the service had a good operating profit, but they felt that their owner withdrawals were now too low for the number of hours they worked. They might, therefore, continue to operate the service only for another year because they could earn more in another job. As with some other services, the owner's report of insufficient income explains why the owner views this service as being in a weaker financial position than suggested by the EBIT margin.

Changes since 2019 and during 2022

There was little difference in weekly expenditure between 2019 and 2022, but weekly revenue was considerably higher in the first part of 2022 than in 2019 and the second part of 2022. The higher revenue partly reflected EWSS as well as higher total payments from DCEDIY, possibly related to the receipt of AIM payments which were only received in the first part of 2022. Consequently, profitability and owner withdrawals were both higher in the first part of 2022.

In the interview, the owner reported that the financial position had deteriorated since 2019 because funding had not kept up with rising costs and the funding rate had not increased in real terms for many years. The introduction of Core Funding had not helped this longer-term deterioration because it needed to sufficiently increase funding rather than just ensuring that "no service was worse off".

The owner reported that several policy-related factors had contributed to rising staff costs:

- Increased paperwork and bureaucracy (partly due to the introduction of Core Funding).
- The additional staff training required under Core Funding.[27]
- The new requirement to pay staff sick leave.[28]
- The impact of the ERO on staff wages.

The service had tried to reduce other expenditures by cutting back on some elements of expenses such as birthday cakes and gifts.

Financial drivers

In 2022, revenue was drawn almost entirely from DCEDIY funding streams. According to the owner's reports of staff hours during 2022, 75% of all staff time was contact time and the owner contributed an average of 30 contact and 23 non-contact hours each week (constituting 52% of all staff time). The service delivered an average of six child hours per staff contact hour according to the owner's reports of staff contact hours and child hours. Mean staff hourly pay across all employed staff was €12.91 while the mean hourly employer cost was €14.04, according to the verified salary data and the owner's reports of staff hours.

In the interview, the owner acknowledged that they operated with a higher number of staff than required (that is, the service was "over-staffed"). They stated that this was because they had 15 children and were therefore required to have two staff members for each session. They also reported that they had made no changes to staff benefits or hours to reduce costs because of staff recruitment issues. In particular, it was difficult to recruit staff qualified for AIM children who were willing to work three-hour sessions and hard to attract staff to a smaller setting with few promotion opportunities. These recruitment issues meant that they had to recruit staff with less experience, even though these staff cost the same as those with more experience.

On the other hand, the owner reported that the service paid no rent for the venue which reduced costs relative to other settings which paid rent.

The owner reported that enhancing their financial position by expanding their provision had been limited by the fact that the service was registered as sessional only. This constrained their ability to adjust provision hours or ages of children in attendance.

[27] See footnote 22 for more information on the new requirement for a Quality Action Plan under Core Funding.

[28] The Sick Leave Act 2022 commenced on 1st January 2023 and introduced a new statutory right to employer-paid sick leave. Employees have an entitlement to three days employer-paid sick leave. The entitlement will rise from the initial three days to five days from January 2024 to seven days from January 2025, and to ten days from January 2026 onward.

The owner also reported that one factor deterring services from closing is the cost of redundancy. They believed that an inability to afford this cost is one reason why many small services were remaining open.

Future expectations

The owner was not sure whether they would continue operating the service because of the declining returns for them. They are considering reducing provision to one session, which would not help financially but would improve the owner's quality of life.

Key factors going forward would be the impact of ERO on staff pay and whether the new sick leave requirements[29] would encourage greater staff absence.

Policy changes

In the interview, the owner had several comments on how policy affects their financial position:

- Regarding **funding levels:** ECCE capitation should be increased to 2010 levels indexed for inflation.[30] Funding levels should cover non-contact hours during the summer months because nine weeks is an insufficient period to take another job.

- Regarding **other funding:** there should be support for services which have to close for personal reasons such as health issues, sickness or bereavement.

- Regarding the **administrative burden:** paperwork should be reduced. For example, by removing the repeated paperwork for the same child each year; allowing all paperwork to be completed in June; and reducing the length of the three-page contract for parents. In addition, unannounced inspections (by Pobal, Tusla, and the environment officer) take up staff time and reduce the level of care.

- Regarding the **conditions for funding:** services should be allowed to charge top-up fees for parents who can afford them. This might not have substantial financial benefit, but it could increase parental respect for the service with fewer late drop-offs/pickups and unplanned absences.

- Regarding the **staffing conditions**: staffing for AIM children should be permitted to include those with special needs assistant (SNA) qualifications who currently can only work in schools. In addition, the value of the additional staff training requirements in Core Funding[31] for experienced staff is not clear.

[29] See footnote 28 for a description of the new statutory right to employer-paid sick leave introduced under the Sick Leave Act 2022.

[30] In 2018 the standard ECCE capitation was increased by 7% to €69. For the 2022/23 programme year, all ECCE capitation was paid at a flat rate of €69 per child per week.

[31] See footnote 21 for a description of the Quality Action Plan required under Core Funding.

- Regarding **mandatory child:staff ratios**: these ratios should be reduced from 11:1 to 8:1 in order to fully meet child needs.
- Regarding **how policy works with sessional services**: there is a feeling that low Core Funding for these service reflects a Government position to squeeze small services out of the sector and this should be addressed.

Table 12 Service H

Panel 1: service characteristics	
Sole trader	ECCE
Urban	No AIM
Medium size	No NCS
Morning and afternoon sessions	Core funding grant: €15k
Single site	Graduate premium in 2021/22 and 2022/23
Open 38 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources	6%	6%	0%	0%	0%	0%	0%
Revenue	€80k	€80k	€95k	€100k	€95k	€115k	€115k
Operating expenditure	€40k	€40k	€50k	€45k	€40k	€50k	€50k
Operating profit	€40k	€40k	€45k	€55k	€55k	€60k	€70k
EBIT margin	50%	50%	49%	56%	59%	55%	58%
Net margin	50%	50%	49%	56%	59%	55%	58%
Net owner withdrawals	€30k	€35k	€40k	€45k	€45k	€50k	€55k

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change 2019 to Aug/Dec 2022	% change Jan/July to Aug/Dec 2022
Mean weekly revenue	€2,700	€3,400	€2,700	0%	- 21%
Mean weekly expenditure	€1,200	€1,300	€1,200	5%	- 7%
EBIT margin	56%	61%	54%	n/a	n/a
Mean net monthly withdrawals	€3,800	€5,100	€3,700	n/a	n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	78%	ECCE	85%
	AIM Level 7	12%	Core Funding	15%
	Transition funding	1%		
	Sustainability funding	4%		
	EWSS	4%		
	Other funding / grants	2%		
Mean weekly revenue	ECCE	€2,600	ECCE	€2,300
	Other DCEDIY	€600	Other DCEDIY	€400
	Other government	€200		
Expenditure types	Staff	52%	Staff	58%
	Venue	6%	Venue	6%
	Other	42%	Other	36%
Mean weekly expenditure	Staff	€700	Staff	€700
	Venue	€75	Venue	€73
	Other	€600	Other	€400

Sources: DCEDIY and Pobal administrative data and review questionnaire data

Note: See notes for table 5. Service H only received AIM income in the first part of 2022 and not in autumn 2022 for the administrative year 2022/23. Operating profit for 2021 and 2022 does not exactly equal the difference between revenue and operating expenditure due to its calculation prior to rounding. The percentage change in weekly expenditure between 2019 and Aug/Dec 2022 does not exactly equal the difference in the means due to its calculation prior to rounding.

Service I

Background

Service I is a large sole trader, located in an urban area, offering multiple afternoon sessions each day for 38 weeks a year to children from the age of 2½ years. It offers ECCE and receives AIM funding, but no funding for NCS was received in 2022.

Current financial sustainability

The EBIT margins for this service have consistently been around the range of 35% to 45% with the exception of 2020 and 2021 when profitability jumped to over 50%. Revenue and operating expenditure have steadily increased since 2016, with unusually low expenditure in 2020 and exceptionally high revenue in 2021 generating the two-year rise in operating profit. Owner withdrawals have steadily risen in line with the operating profit but did not spike up as much as the profit in 2020 and 2021. In 2022, the EBIT margin was 38%, the operating profit was €70k and net owner withdrawals were €60k. The owner reported that they typically worked 13 contact hours and 32 non-contact hours each week in their service.

The business has been paying off debt since it opened in 2008 and additional formal loans were taken out in 2018 with ongoing substantial repayments. Consequently, the net margin (operating profit minus debt interest) has been slightly lower than the EBIT margin. No specific cash flow issues were reported, but there has been a steady flow of owner injections presumably to ease cash flow given the regular and substantial withdrawals.

In the interview, the owner reported that the service had been in a good financial position until last year. Reflecting the change in the EBIT margin within 2022, the owner reported that a decline in profitability in 2022 had left the service it in a weak financial position. They had considered ceasing operation this year, not just because of the financial pressures but also because of the stress and burden of the additional administration and paperwork.

Changes since 2019 and during 2022

Weekly revenue and expenditure were higher in 2022 than in 2019, with both being more than a third higher in the second part of 2022 than in 2019. As the differences across years in revenue and expenditure were similar, the EBIT margin and owner withdrawals were similar in 2019 and both parts of 2022. Total weekly funding from DCEDIY was higher in the second part of 2022 than in the first part, more than offsetting the withdrawal of EWSS. However, costs increased at a slightly higher rate than for revenue.

In the interview, the owner reported that Core Funding and increases in other government funding in 2022 had not helped their financial position because the overall change had not been sufficient to cover rising costs.

The owner reported that the major current concern was rising costs due to a combination of a high inflation; rising staff wages due to ERO; and a higher than anticipated tax bill as a result of EWSS. They also reported that costs had been pushed up by a fall in demand as parental preferences had shifted towards more hours of care since Covid. This meant that they had needed to take children with higher needs (such as not toilet trained) and more special needs children which had required the hiring of an additional part-time staff member.

In response to the financial pressure, the owner had reduced their withdrawals and tried to reduce expenditure, but there were few options for cutting costs. They were planning to take out a loan to cover the tax bill.

Financial drivers

In 2022, revenue was drawn entirely from DCEDIY funding streams (including AIM Level 7) and EWSS in the first part of the year. According to the owner's reports of staff hours during 2022, 80% of all staff time was contact time and the owner contributed an average of 13 contact and 32 non-contact hours each week (constituting 23% of all staff time). The service delivered an average of four child hours per staff contact hour according to the owner's reports of staff contact hours and child hours. Mean staff hourly pay across all employed staff was €9.98 while the mean hourly employer cost was €10.93, according to the verified salary data and the owner's reports of staff hours.[32]

In the interview, the owner confirmed that the staffing level was higher than government requirements. Costs were also higher because their staff were on 44-week annual contracts (not covered by government funding[33]) in order to reduce staff leaving for other jobs with more security and higher pay. The owner acknowledged that this had increased their costs, especially with the ERO. As noted above, the owner felt that there were few options to cut costs.

The owner reported that they were unwilling to apply for sustainability funding because they viewed this as an "insult" to a service which had been successful for so many years.

Future expectations

The owner reported that the service would stay afloat in 2023, but they were worried about financial viability in 2024/25.

Key factors would be higher staff wages due to ERO; inflation in the costs of general expenses; and the loss of parental demand to services offering more hours in daycare. It would also

[32] The National Minimum Wage in 2022 was €7.35 for those under age 18, €8.40 for those 18 years old, €9.45 for those 19 years old and €10.50 for those under aged 20 and older (National Minimum Wage in Ireland). The presence of younger staff could explain why the mean hourly pay was below €10.50.

[33] DCEDIY reported that ECCE funding rates and Core Funding covers statutory leave. Under statutory requirements, staff are entitled to 8 hours of paid holiday for every 100 hours worked (or 8% of time worked). For staff working 38 weeks, this amounts to around three weeks of paid holiday leave.

depend upon whether the service could enhance its financial viability by offering more hours in terms of daycare beyond the sessional service, an option under consideration. The owner reported that this would require a change of registration and joining the NCS and could provide a higher income per child hour but would also have challenges in terms of how the service operated.

Policy changes

In the interview, the owner had several comments on how policy affects their financial position:

- Regarding **funding levels**: amounts should be increased to cover rising wage costs due to ERO.
- Regarding **AIM funding**: funding should also be increased to cover non-contact hours for the related paperwork.
- Regarding the **mandatory staff:child ratios**: the ratios should be reduced (fewer children per staff member) to provide better quality services, particularly when there are special needs children.

Table 13 Service I

Panel 1: service characteristics	
Sole trader	ECCE
Urban	AIM Levels 4 and 7
Large	No NCS
Multiple afternoon sessions	Core funding grant: €45k
Single site	Graduate premium in 2021/22 and 2022/23
Open 38 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources	0%	0%	0%	0%	0%	0%	0%
Revenue	€80k	€125k	€140k	€145k	€155k	€230k	€180k
Operating expenditure	€50k	€70k	€90k	€90k	€75k	€100k	€110k
Operating profit	€30k	€55k	€50k	€55k	€80k	€130k	€70k
EBIT margin	37%	43%	34%	37%	51%	56%	38%
Net margin	36%	41%	31%	34%	48%	55%	36%
Net owner withdrawals	€30k	€50k	€65k	€50k	€40k	€80k	€60k

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change	
				2019 to Aug/Dec 2022	Jan/July to Aug/Dec 2022
Mean weekly revenue	€3,800	€4,400	€5,100	35%	14%
Mean weekly expenditure	€2,400	€2,700	€3,300	39%	23%
EBIT margin	37%	40%	35%	n/a	n/a
Mean net monthly withdrawals	€4,000	€5,000	€4,900	n/a	n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	84%	ECCE	66%
	AIM Level 7	3%	AIM Level 7	14%
	Transition funding	1%	Core Funding	20%
	EWSS	12%		
Mean weekly revenue	ECCE	€3,700	ECCE	€3,300
	Other DCEDIY	€200	Other DCEDIY	€1,700
	Other government	€500		
Expenditure types	Staff	57%	Staff	59%
	Venue	7%	Venue	6%
	Other	36%	Other	35%
Mean weekly expenditure	Staff	€1,500	Staff	€1,900
	Venue	€200	Venue	€200
	Other	€1,000	Other	€1,200

Sources: DCEDIY and Pobal administrative data and review questionnaire data

Note: See notes for table 5. For service I, the administrative data indicated receipt of NCS, but no income was received from NCS in 2022.

Service J

Background

Service J is a small, private for-profit service, located in a rural area, offering a single session each day for 38 weeks a year to children from the age of 2½ years. It offers ECCE but does not receive any AIM or NCS funding. The service switched from being a sole trader to a private for-profit service in September 2022.

Current financial sustainability

Revenue and operating expenditure changed little between 2016 and 2022, with an EBIT margin ranging from 42% to 66%. In 2022, the EBIT margin was 56% and the operating profit was €20k. The owner reported they were the only staff and typically worked 15 contact hours and 10 non-contact hours each week in their service, but took no formal pay for their time.

The service had formal loans from 2014 which were repaid in 2020. These loans had substantial interest costs which generated a net margin lower than the EBIT margin until 2020. There were also ongoing substantial debt repayments from personal loans used to finance the service from earlier years, but the interest payments could not be separately identified from repayment of the principal and were not included in the calculation of the net margin. Hence, the net margin is overstated for the period 2016 to 2020 and is not reported for 2021 and 2022 when no figures for interest payments were provided. The end-of-year current ratio was below one in 2017, but greater than one in more recent years, reflecting an excess of current assets over current liabilities at each year end. There were also cash flow issues in 2016, 2018 and 2019, which were covered by owner injections.

In the interview, the owner stressed that the service was only financially viable because they did not pay rent for the venue (having moved the service to their home residence) and because they received no return ("wage") for their time (consistent with the absence of any owner withdrawals for the period up to September 2022 when the service operated as a sole trader). They reported that all operating profit since 2016 had been used to repay loans or had been reinvested in the service (consistent with the total amount of loans).

Changes since 2019 and during 2022

There was little difference in revenue or expenditure between 2019 and 2022, with small decreases in both within 2022. Total DCEDIY funding slightly increased within 2022 while revenue from parent fees/charges decreased. The EBIT margin in 2019 (54%) was similar to the EBIT margin in the first half of 2022 (57%) and the second half of 2022 (56%).

In the interview, the owner reported that child numbers had fluctuated between 2016 and 2019, but financial stability of the service had benefitted from full attendance since 2019.

However, the owner reported that policy changes in 2022 had weakened the service's financial position in several ways:

- The introduction of Core Funding did not benefit the service because they had previously received ECCE higher capitation.[34]
- They believed that PSP had not been replaced within Core Funding[35]
- They were no longer permitted to increase fees which could have supported financial sustainability.
- The owner had switched to a limited company in order to facilitate paying themselves a wage corresponding to the new ERO, but Core Funding had not been sufficient for them to pay this wage.

The owner reported that they had reduced staff costs in 2019 dropping a staff member and ceasing to undertake continuing professional development (CPD). Venue costs had been

[34] See footnote 16 for an explanation of the impact of the change from the graduate capitation in ECCE to the graduate premium in Core Funding.

[35] Core Funding included an element which replaced the PSP with the budget previously allocated for PSP increased by 49%.

reduced by moving the service premises to their home. They had also moved to monthly payments to the Revenue, which had eased cash flow.

However, high inflation in 2022 had made meeting costs more difficult.

Financial drivers

In 2022, revenue was drawn from a mix of DCEDIY funding and parent-paid fees/charges. According to the owner's reports of staff hours in 2022, 60% of all staff time was contact time and the owner contributed an average of 15 contact and 10 non-contact hours each week (constituting all of the staff time). The service delivered an average of 11 child hours per staff contact hour according to the owner's reports of staff contact hours and child hours.

In the interview, the owner stressed that the service was only viable because they did not pay any rent or take a wage.

To further reduce costs, the owner was considering cutting some extras, using second-hand equipment and seeking toy donations from parents, but they believed this would reduce quality and parental satisfaction.

The owner reported that the service was currently at maximum capacity with a waiting list and places were already filled for subsequent years. However, they felt that ERO was a hindrance (alongside the required capital investment) to hiring additional staff and opening a second sessional service.

Future expectations

The owner reported that the service might close if conditions deteriorated.

The key factor was whether funding would be further eroded by inflation.

Policy changes

In the interview, the owner had several comments on how policy affects their financial position:

- Regarding the **funding level**: an increase to capitation is needed to restore levels eroded by inflation and to provide a high quality service. The basic funding should mean that services are financially viable with owners able to receive an adequate return (”pay themselves”) without subsidisation from other services or employment and without the need to apply for sustainability funding. This would also reduce the administrative burden.

- Regarding **other funding**: grants to support expansion such as opening a second session would be helpful but the current minimum spending criteria (€35k) is too high.

- Regarding the **complexity and administrative burden:** the current system of funding is over-complicated with too much paperwork.
- Regarding the **conditions for funding**: consideration should be given to permitting parental contributions and additional charges for extras to support high quality provision and parental satisfaction.
- Regarding the **funding mechanism**: the impact of the government in the sector has been positive for parents but negative for providers. If parents were given money and allowed to choose where and how it was spent, providers would also benefit from reduced paperwork and monitoring and being able to charge for extras.

Table 14 Service J

Panel 1: service characteristics	
Private for-profit	ECCE
Rural	No AIM
Small	No NCS
Single session	Core funding grant: €5k
Single site	Graduate premium in 2022/23
Open 38 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources	18%	5%	2%	3%	0%	0%	7%
Revenue	€35k	€30k	€25k	€35k	€25k	€35k	€40k
Operating expenditure	€10k	€10k	€10k	€15k	€15k	€15k	€15k
Operating profit	€20k	€20k	€15k	€20k	€10k	€15k	€20k
EBIT margin	66%	64%	57%	54%	42%	50%	56%
Net margin	60%	59%	51%	52%	41%	n/a	n/a
Net owner withdrawals				n/a			

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change 2019 to Aug/Dec 2022	% change Jan/July to Aug/Dec 2022
Mean weekly revenue	€900	€1,100	€900	6%	- 14%
Mean weekly expenditure	€400	€500	€400	3%	- 12%
EBIT margin	54%	57%	56%	n/a	n/a
Mean net monthly withdrawals	n/a				

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	89%	ECCE	82%
	Parent fees / charges	11%	Core Funding	18%
			Parent fees / charges	0.2%
Mean weekly revenue	ECCE	€1,000	ECCE	€800
	Private	€100	Other DCEDIY	€200
			Private	€1
Expenditure types	Staff	0%	Staff	0%
	Venue	13%	Venue	16%
	Other	87%	Other	84%
Mean weekly expenditure	Staff	€0	Staff	€0
	Venue	€60	Venue	€65
	Other	€400	Other	€300

Sources: *DCEDIY and Pobal administrative data and review questionnaire data*

Note: *See notes for table 5. For service J, there are no net margin figures for 2021 and 2022 when the value of interest on loan repayments could not be identified. The net margin figures for 2016 to 2020 may be overstated for this reason. The owner reported that they received no payment for their time. There was also no EWSS for this reason. Operating profit for 2016, 2021 and 2022 does not exactly equal the difference between revenue and operating expenditure due to its calculation prior to rounding. The percentage changes in weekly revenue and weekly expenditure between 2019 and Aug/Dec 2022 do not exactly equal the differences in the means due to their calculation prior to rounding.*

Service K

Background

Service K is a medium-sized, private for-profit service, located in an urban area, offering morning and afternoon sessions each day for 38 weeks a year to children from the age of 2½ years. It offers ECCE and receives AIM and NCS funding.

There was a change in ownership in January 2022, which meant that no data could be provided for the period prior to 2021.

Current financial sustainability

In the two years for which data is available, revenue and expenditure fell with the EBIT margin substantially lower in 2022 (47% in 2021 and 27% in 2022). In 2022, the operating profit was €45k.

No overdraft or debt payments were reported (and the net margin equalled the EBIT margin for both years). A substantial informal loan from the owner was needed in July 2022 to cover the costs of the change in ownership, including the cost of making the building compliant with regulations. There was a cash flow issue in late 2022 which was resolved using funds from the owner's personal account.

In the interview, the owner reported that the service had not been profitable since it had become a legally registered service in October 2022, confirmed by the negative EBIT margin in the second part of 2022.

Changes since 2019 and during 2022

The absence of data for prior to 2021 meant that comparisons with 2019 were not possible. Within 2022, average weekly revenue (almost entirely from DCEDIY) was substantially lower in the second part of the year than in the first part, although there was no substantial change in the owner-reported child hours. Consequently, there was a substantial drop in profitability within 2022 from an EBIT margin of 40% in the first part of the year to a loss of -13% in the second part.

In the interview, the owner reported that the service had been profitable before Covid under the previous ownership, but had not been profitable since it had become a legally registered service in October 2022.

The owner reported that the decline in profitability was partly due of a decline in the number of children since 2019. But the owner attributed the main reason for the current lack of profitability to insufficient Core Funding. They reported that total funding had reduced with

Core Funding due to the loss of ECCE higher capitation[36] and lack of funding for non-contact hours.[37]

The owner also reported that profitability had declined since 2019 because of rising expenses (including those for cleaning) and wages. However, inflation and the introduction of ERO during 2022 had further increased costs. ERO had both directly affected wages and also had an indirect effect of increasing wage expectations which meant that the service had to pay more than the requirement to retain staff. In particular, a graduate staff member in the service had to be paid significantly more under ERO. The funding changes had also not covered increases in employer tax contributions in October 2022 and rises in recruitment costs.

In response to the financial pressures, the owner had tried to reduce expenses and expenditure on materials.

Financial drivers

In 2022, revenue was drawn almost entirely from DCEDIY funding streams (including AIM Level 7). According to the owner's reports of staff hours in 2022, 81% of all staff time was contact time. The service delivered an average of five child hours per staff contact hour according to the owner's reports of staff contact hours and child hours. Mean staff hourly pay across all employed staff was €13.66 while the mean hourly employer cost was €14.24, according to the verified salary data and the owner's reports of staff hours.

In the interview, the owner reported that they were operating at the regulated child:staff ratio and could not reduce their staffing because they had special needs children.

Future expectations

The owner reported that they would continue operating if conditions were favourable.

The key factors for future operation are staff retention, government funding, inflation and the repayment of debt. The service might cease operating if it is unable to retain staff or many children leave the service (which would reduce revenues). Alternatively, it could be earning profits by the end of 2023 if inflation reduces, staff do not leave and parental demand remains unchanged. Other key factors will be future developments in government funding and the service's ability to manage its debt.

The owner is also considering how to make more use of the venue (to cover the rent) and would like to increase income by organising summer camps and providing after school classes, subject to planning permissions and costs.

[36] See footnote 16 for an explanation of the impact of the change from the graduate capitation in ECCE to the graduate premium in Core Funding.

[37] Core Funding included an element to replace PSP including funding for non-contact hours.

Policy changes

In the interview, the owner had several comments on how policy affects their financial position:

- Regarding **funding levels**: funding should cover mandated expenses such as venue cleaning and fire safety. In addition, sessional staff should be treated as teachers and be funded on a salary basis rather than dependent on child attendance.[38]

- Regarding **conditions for funding**: staffing for AIM children should be permitted to include staff with special needs assistant (SNA) qualifications regardless of their ECCE specific qualifications. Without being able to use SNA staff, AIM funding is insufficient to cover the cost of staff for special needs children.

- Regarding **how policy works with sessional services**: funding for sessional services should be separated from that for day care services because sessional services have different staff qualification requirements[39], income sources and only operate for part of the year.

[38] Government funding pays for the service or supports capacity of a service and how staff are paid is a service decision.

[39] The Child Care Act 1991 (Early Years Services) Regulations (2016) states that each employee working directly with children in a pre-school service must hold at least a major award in Early Childhood Care and Education at level 5 on the National Framework of Qualifications or a qualification deemed by the Minister to be equivalent. Additionally, services must ensure that each ECCE room/session has a lead educator holding at least a major award in Early Childhood Care and Education at level 6 or equivalent.

Table 15 Service K

Panel 1: service characteristics	
Private for-profit	ECCE
Urban	AIM Level 7
Medium size	NCS
Morning and afternoon sessions	Core funding grant: €20k
Single site	Graduate premium in 2022/23
Open 38 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources						3%	2%
Revenue						€205k	€170k
Operating expenditure						€110k	€125k
Operating profit						€95k	€45k
EBIT margin						47%	27%
Net margin						47%	27%
Net owner withdrawals						n/a	

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change	
				2019 to Aug/Dec 2022	Jan/July to Aug/Dec 2022
Mean weekly revenue		€5,400	€2,800		- 48%
Mean weekly expenditure		€3,300	€3,200		- 3%
EBIT margin		40%	- 13%		n/a
Mean net monthly withdrawals		n/a			n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	80%	ECCE	80%
	AIM Level 7	17%	AIM Level 7	6%
	Parent fees / charges	3%	NCS	1%
			Core Funding	13%
			Parent fees / charges	1%
Mean weekly revenue	ECCE	€4,300	ECCE	€2,300
	Other DCEDIY	€900	Other DCEDIY	€500
	Private	€200	Private	€25
Expenditure types	Staff	71%	Staff	58%
	Venue	20%	Venue	21%
	Other	19%	Other	21%
Mean weekly expenditure	Staff	€2,300	Staff	€1,800
	Venue	€700	Venue	€700
	Other	€300	Other	€700

Sources: *DCEDIY and Pobal administrative data and review questionnaire data*

Note: *See notes for table 5. Service K had a new owner in January 2022 and could not provide any data for prior to 2021 so there are no comparisons with 2019. The administrative data indicated no receipt of AIM funding, but the service received funding for AIM Level 7 in 2022. No income was received from EWSS because the service was not legally registered until October 2022. Operating profit for 2018 and 2022 does not exactly equal the difference between revenue and operating expenditure due to its calculation prior to rounding.*

Service L

Background

Service L is a small, not-for-profit community service, located in a rural area, offering a single session each day for 38 weeks a year to children from the age of 2½ years. It offers ECCE and receives NCS funding but does not receive any AIM funding.

The service is managed by a local public company which receives a public grant for local development. The company provides some in-kind support such as administration to the service and subsidises the service costs. Around a fifth of the service's revenue comes from private sources, including parent-paid fees, charitable fundraising and other sources.

The service was unable to provide annual financial measures for the calendar year 2019. This was the only service in the review with two interviews with different individuals (collectively referred to as the owners).

Current financial sustainability

Both revenue and operating expenditure have fluctuated around €30k since 2016, with revenue only marginally greater than expenditure in most years and falling below expenditure in 2022. Hence, the EBIT margin was low throughout the period and was substantially negative (-26%) in 2022 with an operating loss of €5k.

No overdraft or debt payments were reported (and the net margin equalled the EBIT margin for all years). Cash flow issues in late 2022 and early 2023 were reported and have not been resolved.

In the interviews, the owners noted that the service income did not cover the cost of the single staff member which meant that the service was in financial loss and an application would be made for a sustainability grant. They reported that the service was never financially viable without additional support and a sustainability grant.

Changes since 2019 and during 2022

Comparison between 2019 and 2022 could not be drawn due to the absence of data for 2019. Weekly revenue changed little within 2022, with a reduction in ECCE funding being replaced by Core Funding and a small increase in NCS funding. Average weekly child hours increased by 37% in the second part of the year (according to the owner reported child hours), together with a shift towards hours for school-age children, which is consistent with the increase in NCS funding and little change in total revenue. Expenditure increased substantially in the second part of the year, driven by a 33% increase in staff costs and higher other spending (including on office stationary and supplies). Consequently, a marginally negative EBIT margin (-7%) in the first part of the year became a substantial one in the second part of the year (-53%).

In the interviews, the owners reported that the service had been making losses before Covid and had repeatedly needed additional government support, although they felt that finances had become more difficult recently. Costs had increased for several reasons including because they had to pay the staff member more under ERO; they had to pay staff sick leave[40]; there was more bureaucracy; parents were more demanding; and inflation had increased other costs.

The service had tried to reduce expenditure by reducing spending on materials and large purchases but had not made major changes.

Financial drivers

In 2022, revenue was drawn from a mix of DCEDIY funding, parent-paid fees/charges and other funding sources. According to the owner's reports of staff hours in 2022, 78% of all staff time was contact time. The service delivered an average of three child hours per staff contact

[40] See footnote 28 for further information on the introduction of statutory Sick Leave in January 2023..

hour according to the owner's reports of staff contact hours and child hours. Mean staff hourly pay across all employed staff was €15.40 while the mean hourly employer cost was €17.29, according to the verified salary data and the owner's reports of staff hours.

In the interviews, the owners noted that the service was located in a small, very isolated community, which meant that demand was subject to large fluctuations. They had only one staff member and could not operate with fewer staff per child due to the low number of children. In addition, it was costly to pay for coverage when that one member of staff was unwell. The owners also reported that there were few options to adjust provision to improve sustainability.

The owners reported that the service was not financially viable and had made several successful applications for sustainability funding in recent years. However, they reported that the application process was long, arduous and lacking in transparency.

Future expectations

The owners reported that the service would have to close in June 2023 if nothing changed and their application for additional support in the form of sustainability funding was not successful. They anticipated that this would be successful and they would continue operating.

Policy changes

In the interview, the owners had one key comment on how policy affects their financial position:

- Regarding the **funding process:** the regular funding arrangements need to recognise the unique financial position of some services. The owners noted that this service is vital to the community, but the small and isolated nature of the community means that the service cannot be financially viable under the current regular funding levels. They reported that the process of applying for sustainability funding is long, arduous and lacks transparency. It would be better, therefore, to have the funding in advance (based on the previous year's finances) rather than going through the same process every year.

Table 16 Service L

Panel 1: service characteristics	
Not-for-profit community	ECCE
Rural	No AIM
Small	NCS
Single session	Core funding grant: €10k
Single site	No graduate premium in 2021/22 or 2022/23
Open 38 weeks per year	
Youngest child aged 2½ years	

Panel 2: annual measures	2016	2017	2018	2019	2020	2021	2022
Proportion of revenue from private sources	19%	16%	28%		15%	15%	26%
Revenue	€35k	€40k	€30k		€30k	€25k	€25k
Operating expenditure	€30k	€35k	€25k		€25k	€25k	€35k
Operating profit	€5k	€5k	€2k		€5k	€0k	- €5k
EBIT margin	15%	7%	8%		18%	2%	- 26%
Net margin	15%	7%	8%		18%	2%	- 26%
Net owner withdrawals				n/a			

Panel 3: 2019 to 2022 changes	2019	January to July 2022	August to December 2022	% change	
				2019 to Aug/Dec 2022	Jan/July to Aug/Dec 2022
Mean weekly revenue		€700	€700		4%
Mean weekly expenditure		€700	€1,100		49%
EBIT margin		- 7%	- 53%		n/a
Mean net monthly withdrawals		n/a			n/a

Panel 4: 2022 revenue and expenditure	January to July 2022		August to December 2022	
Revenue sources	ECCE	54%	ECCE	21%
	NCS	3%	NCS	15%
	CCSP	12%	CCSP	10%
	Transition funding	3%	Core Funding	24%
	EWSS	6%	Parent fees/charges	6%
	Parent fees / charges	2%	Charitable / fundraising	8%
	Charitable / fundraising	6%	Other private	16%
	Other private	15%		
Mean weekly revenue	ECCE	€400	ECCE	€100
	Other DCEDIY	€100	Other DCEDIY	€400
	Other government	€38	Private	€200
	Private	€200		
Expenditure types	Staff	83%	Staff	72%
	Venue	0%	Venue	0%
	Other	17%	Other	28%
Mean weekly expenditure	Staff	€600	Staff	€800
	Venue	€0	Venue	€0
	Other	€100	Other	€300

Sources: DCEDIY and Pobal administrative data and review questionnaire data

Note: See notes for table 5. Annual accounts were not available for 2019 for service L and there are no comparisons with 2019. The proportion of revenue from private sources may include EWSS in 2020 and 2021. The percentage change in weekly revenue between Jan/July 2022 and Aug/Dec 2022 does not exactly equal the difference in the means due to its calculation prior to rounding.

Annex A: Data and verification caveats

Following a discussion with DCEDIY, it was agreed that five services and their interview material would not be included in the review due to incomplete questionnaire data. Incompletion included:

- One service did not provide any data that could be used to complete the questionnaire.
- One service could not provide any data for 2022.
- One service provided complete data but this was largely unverified and there were inconsistencies with the verification documents that were provided.
- One service was unable to provide revenue and expenditure breakdowns for 2022 which were consistent with annual accounts.
- One service was unable to provide expenditure breakdowns for 2022 and had not recorded EWSS in the same way as other services (that is, EWSS was omitted from revenue and total expenditure was net of EWSS contribution).

Table 17 summarises the data and verification caveats for the 12 services in the review.

- Three services had no issues (services A, C and H).

Among the remaining nine services, there were three issues which are inconsequential for the financial viability measures: small discrepancies in funding sources (I and K) and session numbers (F) between the administrative data from DCEDIY and that reported by the service, which may be due to timing in the data; summer end of year for annual measures (F and G); and expenditure only disaggregated into the three categories used in the analysis (D and J).

Each of the nine services had at least one element of missing data or incomplete data verification:

- Four services had some missing data (services D, F, J and L).
- Four services had some incomplete data verification (service B, E, G and I).
- One service had some missing data and incomplete data verification (service K).

None of these caveats impact on the overarching financial assessment for the service.

Overall, there were minor elements of missing data:

- For the annual accounts for 2016 to 2022, there was no data for 2019 for one service; private income in 2020 and 2021 may have included EWSS payments for one service; and interest payments could not be separately identified from loan repayments in 2021 and 2022 for one service. All data prior to 2021 was missing for one service (together with information on debt and cash flow issues prior to 2021) due to a change in ownership.

- For the revenue breakdown in 2022, DCEDIY funding could not be broken down into different funding streams for one service and EWSS was included in other government income for one service.

And there were some minor elements of missing verification:

- For the annual accounts for 2016 to 2022, revenue from EWSS in 2020 and 2021 was verified by consistency with annual accounts and Pobal documents.

- For the revenue breakdown 2022, revenue from EWSS was verified by consistency with annual accounts and Pobal documents.

- For cash flow issues and debt payments, cash flow issues in 2022 could not be verified for one service and cash flow issues and debt payments could not be verified for one service. It should be noted that cash flow issues are partly a subjective assessment and that they can be difficult to measure or verify because actions may be taken to resolve them before the problem fully materialises in the data.

- One owner injection in 2016 could not be verified.

Table 17 Data and verification caveats

Service	Data / verification caveats
A	None
B	Cash flow issue in 2022 not verified
C	None
D	DCEDIY funding in 2022 not disaggregated into different types
	Expenditure in 2022 not disaggregated beyond staff, venue and other (not directly used)
E	Owner injection in 2016 not verified
F	Administrative data indicated one session per day but the service reported two sessions per day
	Annual figures are for year ending with July
	EWSS included in other government income
G	Annual figures are for year ending with June
	EWSS in 2020 and 2021 verified by consistency with annual accounts and Pobal documents
H	None
I	Administrative data indicated receipt of NCS but no NCS was received in 2022
	EWSS in 2022 verified by consistency with annual accounts and Pobal documents
J	Expenditure in 2022 not disaggregated beyond staff, venue and other (not directly used)
	Some interest payments on loans could not be identified separately from repayment of the principal
K	No data before 2021 due to new ownership in January 2022
	Debt payments and cash flow issues not verified
	Administrative data indicated no receipt of AIM Level 7 funding, but this funding was received in 2022
L	No revenue and expenditure data for 2019
	Revenue from private sources in 2020 and 2021 not verified and may include EWSS

Annex B: Financial viability 2016 to 2022

This annex examines the key measures of accounting financial viability using data from 2016 to 2022 from the questionnaires. The first section presents a summary of the annual accounts in terms of annual revenue, operating cost and operating profit, and the second considers the annual EBIT margins derived from this data. The third section considers the net margin (taking into consideration debt interest payments), while the final section discusses the cash flow, debt and borrowing issues reported by the services.

The key findings from this chapter are:

- Annual revenues and operating expenditure typically moved together, rising between 2016 and 2022 for around half of the 12 services, reflecting steadily increasing revenue rates and expenditure costs. (section B.1)

- Rates of operating profit captured in the EBIT margin indicated good financial viability for most of the 12 services: seven services had an EBIT margin above 25% across all years; three services had slightly lower EBIT margins around 20% and slowly declining in two cases; and two services had weak EBIT margins, close to breakeven in some years and negative in 2022 in one case. Steadily declining numbers of ECCE registrations over the 2016 to 2022 period for two services were not associated with any decline in the EBIT margin.[41] (section B.2)

- Very few of the 12 services had any formal loans or used overdrafts and the net margins (with interest payments deducted from operating profit) were only slightly lower than the EBIT margins for these services. (section B.3)

- The nine sole traders in the review had net withdrawals in almost all years in which they were operating, with the amount closely related to the amount of operating profit. The annual withdrawals fluctuated over time for most services, increased consistently for only two services and declined consistently for only one service. The average annual net withdrawal varied between services from €10k to €54k, reflecting differences in the self-reported time input from owners across the services. (section B.4)

- Minor cash flow issues were widespread among the 12 services but were generally not critical to financial viability as they did not involve large amounts (relative to the business if not to personal resources) and were mainly resolved using informal

[41] Declining numbers of ECCE registrations need not reduce the rate of profitability (the EBIT margin) for several reasons. First, revenue may not decline if other sources of revenue (such as NCS funding or parent-paid fees) increase over the same period. Second, operating profit may not decline even if revenue decreases if operating costs are also reduced, for example, by a reduction in staff hours. Third, operating profit may decline at a similar rate to the decline in revenue, balancing out any effect on the EBIT margin.

sources. There were potentially more critical cash flow issues only for a small proportion of the 12 services. (section B.5)

B.1 Annual revenue, operating expenditure and operating profit

Tables 18 to 20 present the annual revenue, operating expenditure and operating profit over 2016 to 2022 for the 12 services. These figures are primarily to inform on the magnitudes of these measures and patterns in recent years rather than the rate of profit, which is discussed in the next section. It is important to note that the operating expenditure for sole traders does not include any owner withdrawals, that is, income from the business which may remunerate them for their time (as explained in section 2.4). For the not-for-profit community service (L), the term “profit” applies to the surplus of revenue over operating cost.

Unsurprisingly, the magnitudes of revenue and operating expenditure reflect the estimated size of the services based on the capacity (measured as the maximum number of children allowed at any point in time multiplied by the total number of session hours per year). The changes in revenues and operating expenditure over the years typically moved together in the same direction. Around half of the 12 services had rising revenues and expenditures, either generally steadily growing over the period (services E, G, H and I) or in part of it (service B during 2016 to 2019 and services A and F after initially starting up in 2019 and 2020 respectively). The evidence on relatively stable numbers of ECCE registrations in table 3 suggests that this is due to revenue rates and expenditure costs increasing at similar rates rather than steadily expanding services. Only one service had persistently declining revenues and expenditures (service C). Of the remaining services, two had relatively stable revenue and expenditure (services J and L), while the other two (services D and K) had some substantial fluctuations, although over only a smaller part of the period.

Several of the 12 services (D, E, G and I) had marked spikes in their annual revenue in 2021 (with the spike also covering 2020 for service E). This partly reflected increases in ECCE registrations in 2020 for services D and I, but it may have also reflected the additional financial supports provided during Covid, including the EWSS. For services E and G, the additional supports may be the key factor but service G has a substantial proportion of income from private sources which may have contributed to the spike.

Table 18 Annual revenue, operating expenditure and operating profit: rural sole traders

Amounts rounded to nearest €5,000 (or €1,000 if less than €5,000)	2016	2017	2018	2019	2020	2021	2022
A – small							
Revenue				€15k	€30k	€35k	€35k
Operating expenditure				€5k	€10k	€10k	€10k
Operating profit				€5k	€20k	€25k	€25k
B – small							
Revenue	€10k	€15k	€35k	€70k	€75k	€80k	€80k
Operating expenditure	€10k	€5k	€25k	€45k	€60k	€65k	€65k
Operating profit	€2k	€10k	€10k	€25k	€15k	€15k	€15k
C – small, no grad.							
Revenue	€40k	€50k	€45k	€45k	€35k	€35k	€30k
Operating expenditure	€25k	€20k	€30k	€30k	€25k	€20k	€15k
Operating profit	€15k	€30k	€20k	€15k	€15k	€15k	€10k
D – small, multisite, AIM							
Revenue				€130k	€150k	€210k	€145k
Operating expenditure				€85k	€130k	€120k	€110k
Operating profit				€45k	€20k	€90k	€35k
E – large, AIM							
Revenue	€185k	€235k	€270k	€255k	€310k	€345k	€245k
Operating expenditure	€145k	€170k	€220k	€255k	€260k	€275k	€225k
Operating profit	€40k	€65k	€45k	€0k	€45k	€70k	€20k

Source: Review questionnaire data

Note: Services A and D opened in 2018/19. There are some cases where the operating profit does not directly equal the difference between revenue and operating expenditure due to the calculation of the operating profit prior to rounding (2019 for service A, 2016 for service B, 2020 and 2022 for service C, and 2018 and 2020 for service E).

Table 19 Annual revenue, operating expenditure and operating profit: urban sole traders

Amounts rounded to nearest €5,000 (or €1,000 if less than €5,000)	2016	2017	2018	2019	2020	2021	2022
F – medium, 44 weeks, AIM, NCS							
Revenue					€75k	€110k	€100k
Operating expenditure					€45k	€65k	€65k
Operating profit					€30k	€45k	€35k
G – medium, under 2s, AIM, NCS							
Revenue	€95k	€125k	€135k	€150k	€145k	€200k	€170k
Operating expenditure	€70k	€80k	€105k	€125k	€120k	€160k	€140k
Operating profit	€25k	€40k	€30k	€25k	€25k	€40k	€30k
H – medium							
Revenue	€80k	€80k	€95k	€100k	€95k	€115k	€115k
Operating expenditure	€40k	€40k	€50k	€45k	€40k	€50k	€50k
Operating profit	€40k	€40k	€45k	€55k	€55k	€60k	€70k
I – large, AIM							
Revenue	€80k	€125k	€140k	€145k	€155k	€230k	€180k
Operating expenditure	€50k	€70k	€90k	€90k	€75k	€100k	€110k
Operating profit	€30k	€55k	€50k	€55k	€80k	€130k	€70k

Source: *Review questionnaire data*

Note: *Service F opened in September 2019. Figures are for year end in July of each year for service F and for year end in June of each year for service G. There are some cases where the operating profit does not directly equal the difference between revenue and operating expenditure due to the calculation of the operating profit prior to rounding (2017 for service G and 2021 and 2022 for service H).*

Table 20 Annual revenue, operating expenditure and operating profit: other types

Amounts rounded to nearest €5,000 (or €1,000 if less than €5,000)	2016	2017	2018	2019	2020	2021	2022
J – for-profit, rural, small							
Revenue	€35k	€30k	€25k	€35k	€25k	€35k	€40k
Operating expenditure	€10k	€10k	€10k	€15k	€15k	€15k	€15k
Operating profit	€20k	€20k	€15k	€20k	€10k	€15k	€20k
K – for-profit, urban, medium, AIM, NCS							
Revenue						€205k	€170k
Operating expenditure						€110k	€125k
Operating profit						€95k	€45k
L – community, rural, small, no grad.							
Revenue	€35k	€40k	€30k		€30k	€25k	€25k
Operating expenditure	€30k	€35k	€25k		€25k	€25k	€35k
Operating profit	€5k	€5k	€2k		€5k	€0k	- €5k

Source: Review questionnaire data

Note: Service K had a new owner in January 2022 and could not provide any data for prior to 2021. Annual accounts were not available for the calendar year 2019 for service L. There are some cases where the operating profit does not directly equal the difference between revenue and operating expenditure due to the calculation of the operating profit prior to rounding (2016, 2021 and 2022 for service J and 2018 and 2022 for service L).

B.2 EBIT margin

Table 21 presents the annual EBIT margin for 2016 to 2022. The EBIT margin is the operating profit divided by revenue expressed as a proportion. For example, an EBIT margin of 20% means that operating profit is 20% of revenue. Again, it should be noted that, for sole traders, the EBIT margin indicates the rate of operating profit before any owner withdrawals, that is, before any transfer of service income to owners to remunerate them for their time working in the service.

Table 21 EBIT margin 2016-2022

	2016	2017	2018	2019	2020	2021	2022
Rural sole traders							
A – small				53%	69%	72%	71%
B – small	18%	56%	28%	34%	21%	20%	20%
C – small, no grad.	40%	60%	39%	37%	36%	38%	39%
D – small, multisite, AIM				36%	14%	44%	23%
E – large, AIM	21%	28%	17%	0%	15%	20%	9%
Urban sole traders							
F – medium, 44 weeks, AIM, NCS					42%	42%	33%
G – medium, under 2s, AIM, NCS	24%	34%	22%	17%	17%	21%	18%
H – medium	50%	50%	49%	56%	59%	55%	58%
I – large, AIM	37%	43%	34%	37%	51%	56%	38%
Other types							
J – for-profit, rural, small	66%	64%	57%	54%	42%	50%	56%
K – for-profit, urban, medium, AIM, NCS						47%	27%
L – community, rural, small, no grad.	15%	7%	8%		18%	2%	-26%

Source: Review questionnaire data

Note: Services A and D opened in 2018/19 and service F opened in September 2019. Service K had a new owner in January 2022 and could not provide any data for prior to 2021. Annual accounts were not available for the calendar year 2019 for service L. Figures are for year end in July of each year for service F and for year end in June of each year for service G.

Overall, rates of operating profit captured in the EBIT margin for 2022 (and more broadly over the period since 2016) indicate good financial viability for most of the 12 services. Seven services (A, C, F, H, I, J and K) had an EBIT margin above 25% across all years with data. The EBIT margin was reasonably steady over the years for these services (including for service C with steadily declining numbers of ECCE registrations). Service H had a small upward trend, reflecting higher growth in revenue than in cost in most years, while service J had a small downward trend, reflecting a mix of rising expenditure and declining revenue. The EBIT margin improved a year into operation in 2020 for service A (revenue growth was greater than the increase in expenditure) and fell for service F in 2022 (when revenue declined). Three services (B, D and G) had slightly lower (around 20%) but consistently positive EBIT margins which were relatively stable across the period, although slowly declining in two cases (B and G) due to costs rising at a slightly higher average rate than revenue across the period. Two services (E and L) had lower EBIT margins, at breakeven in 2019 for service E[42] and substantially negative in 2022 for service L. The spikes in revenue in 2021 observed above correspond to the spikes in the EBIT margin in 2021 for service D, E, G and I.

Although both private services (J and K) were in the highest EBIT margin group and the community service (L) was in the lowest group, there are no other patterns with the other service characteristics and conclusions cannot be drawn about the relationships between provider type and profitability because of the small sample.

While rates of operating profit captured in the EBIT margin for 2022 (and more broadly over the period since 2016) indicate good financial viability for most of the 12 services, it is possible that this may mask changes in financial position within 2022 or low levels of income for sole traders' self-reported time spent in the service. The first of these is investigated further in Annex C, which explores in greater depth the changes between 2019 and 2022 and within 2022.

B.3 Net margin

The net margin is a measure of whether revenue is sufficient to cover operating expenditure and interest payments on overdrafts and debts. As mentioned above, very few of the 12 services had any formal loans or used overdrafts, and only three services (B, I and J) reported annual interest costs for some or all of the years in the 2016 to 2022 period. For these three services, the interest payments were generally relatively small,[43] particularly for later years in the period, and the net margins (presented in the case studies in Annex A) were only slightly lower than the EBIT margins in recent years.

B.4 Annual owner withdrawals

Table 22 presents the net annual owner withdrawals (withdrawals minus any injections) for the nine sole traders in the review. Two points should be noted about these owner withdrawals:

- Owner withdrawals can exceed or be less than operating profit in any given year for two reasons. First, tax must be paid on the operating profit, which reduces potential withdrawals below the operating profit. Second, owners can choose when and how to make withdrawals, potentially retaining profits across years or reinvesting them in the service. Consequently, the level of net withdrawals need not correspond directly to operating profit in any given year.

[42] Although there was no steady decline in the EBIT margin for service E in spite of a steady decline in the number of ECCE registrations.

[43] See the case study for service J in chapter 4 for a caveat on the net margin in recent years for this service.

- All sole traders in the review reported that they primarily considered owner withdrawals to be income for their time used to deliver the service and not as a return on monetary investments into the service. Some sole traders also used injections (without any formal financial liability) to ease cash flow issues or make improvements in the service. The net amount of withdrawals over injections can therefore be considered as the owner's income for their time used to deliver the service.

Table 22 Net annual owner withdrawals for sole traders

Rounded to nearest €5,000 (or €1,000 if less than €5,000)	2016	2017	2018	2019	2020	2021	2022
Rural sole traders							
A – small				- €1k	€20k	€20k	€20k
B – small	€5k	€10k	€10k	€20k	€15k	€15k	€10k
C – small, no grad.	€0k	€0k	€20k	€15k	€15k	€15k	€10k
D – small, multisite, AIM				€20k	€35k	€55k	€55k
E – large, AIM	€20k	€35k	€30k	€20k	€25k	€40k	€30k
Urban sole traders							
F – medium, 44 weeks, AIM, NCS					€25k	€40k	€25k
G – medium, under 2s, AIM, NCS	€20k	€30k	€25k	€20k	€20k	€30k	€15k
H – medium	€30k	€35k	€40k	€45k	€45k	€50k	€55k
I – large, AIM	€30k	€50k	€65k	€50k	€40k	€80k	€60k

Source: *Review questionnaire data*

Note: *Services A and D opened in 2018/19 and service F opened in September 2019. Figures are for year end in July for service F and for year end in June for service G in each year for 2016 to 2021. Service C had no withdrawals in 2016 and 2017 because the service had not been operating for very long. For service E, the net owner withdrawals in 2016 could not be verified.*

With the exception of service A in the initial year of operation and service C not long after it started operating in 2016 and 2017, the nine sole traders in the review had net withdrawals in all years in which they were operating. Most of the services had fluctuations both up and down in net withdrawals across years, with only two services (D and H) having consistently increasing amounts over time and one with consistently decreasing amounts (service C), while withdrawals for service A remained constant after the initial year of operation.

The average annual owner withdrawal across the available years split into three groups:

- Average annual net withdrawal of between €10k and €20k (with average annual operating profit between €15k and €25k) (services A, B C).
- Average annual net withdrawal of between €23k and €30k (with average annual operating profit between €30k and €40k) (services E, F, G).
- Average annual net withdrawal of between €41k and €54k (with average annual operating profit between €50k and €60k) (services D, H, I).

Unsurprisingly, the amount of owner withdrawals is closely related to the amount of operating profit. In addition, the lowest group consists only of relatively small services, while the middle group contains medium and larger services. However, the highest group contains a complete mix by size.[44]

Table 23 Net annual owner withdrawals and owner-reported owner hours in 2022

	Net annual owner withdrawals in 2022	Owner-reported typical weekly owner hours used in service delivery		
		Contact hours	Non-contact hours	Total hours
Rural sole traders				
A – small	€20k	15	17	32
B – small	€10k	15	15	30
C – small, no grad.	€10k	15	4	19
D – small, multisite, AIM	€55k	15	30	45
E – large, AIM	€30k	25	35	60
Urban sole traders				
F – medium, 44 weeks, AIM, NCS	€25k	25	8	33
G – medium, under 2s, AIM, NCS	€15k	10	20	30
H – medium	€55k	30	23	53
I – large, AIM	€60k	13	32	45

Source: Review questionnaire data
Note: Typical owner weekly hours are those reported in the questionnaire and could not be verified through documentation.

[44] The same patterns hold for the amount of owner withdrawals for 2022, which could have been more closely related to the relative size which is measured as of 2022/23.

Table 23 presents the owner's self-reported typical weekly working hours in 2022[45] alongside the net annual owner return. It should be noted that these weekly hours do not include any hours worked by the owner outside of the operating weeks. The table presents the total typical weekly hours into contact (within ratio) hours and non-contact (not in ratio) hours. For the single session services (A to D), weekly contact hours were all 15, but varied between 10 and 30 for services with multiple sessions (services E to I). Typical weekly non-contact hours varied considerably from 4 to 35, broadly reflecting the size of service and number of sessions.[46] There was a link between the amount of annual owner withdrawal and the typical weekly hours reported by the owner: the three services with the lowest withdrawal amounts have the lowest total hours (services B, C and G), while the three services with the highest withdrawal amounts have the highest total hours (services D, H and I). This suggests that the variation in owner withdrawals reflects differences in the time input from owners across the services.

B.5 Cash flow

Several measures were drawn from the questionnaire data to consider the extent of cash flow issues faced by the services.

Only five of the 12 services provided any reports of their end-of-year current assets and current liabilities, most likely because these services have few tangible relevant assets and they are unlikely to hold records for them. For those that did report figures, the average annual current ratios were a little over one (the threshold for acceptability) for one service (G) and were substantially higher than one for another three services (D, F and J). Only one service (A) had a ratio significantly below one, indicating that current liabilities typically exceeded current assets at year end.

An examination of the monthly revenue and expenditure flows gave no indications of substantial cash flow issues in the sense that accumulated balances were largely positive through the year, reflecting large advance payments of revenue from DCEDIY sources. Only two services reported using overdraft facilities in 2022, one only paying for a charge to keep the facility open (service C) and one (service I) making only one small overdraft payment.

[45] It should be noted that owners' self-reported typical weekly hours were not verified in the same way as the financial data. Unusual numbers of hours reported in the questionnaires were challenged and either confirmed or amended.

[46] Data from the Annual Early Years Sector Profile 2021/202 (to be reported in a forthcoming publication) indicates that managers in all types of sessional services (not just sole traders) work a mean of 12 non-contact hours each week while deputy managers work a mean of 7 non-contact hours each week. This total of 19 non-contact hours per week compares to a mean of 20 non-contact hours per week among the 9 sole traders in this review, although it should be noted that not every service has a deputy manager.

Table 24 Borrowing and cash flow issues

Service	Cash flow issues, formal loans and owner injections
Rural sole traders	
A – small	Cash flow shortfall: €2k in late 2022 (wages not paid)
	Owner injections: €10k / €2k / €2k in 2019 / 2020 / 2021 and between €100 and €800 per month in 2022
B – small	Cash flow shortfall: €5k in late 2022 (paid from personal savings)
	Formal loans: 2018 to 2025: €50k loan with €750 monthly loan repayments reduced to €500 in 2022
C – small, no grad.	None
D – small, multisite, AIM	Owner injections: €10k in 2019
E – large, AIM	Cash flow shortfall: €45k in late 2022 (wages reduced and non-interest loan from family)
	Owner injections: €5k in 2016
Urban sole traders	
F – medium, 44 weeks, AIM, NCS	Cash flow shortfall: €2k in early 2022 and €15k in early 2023 (borrowed from family)
	Owner injections: €1k / €3k in 2020 and 2021
G – medium, under 2s, AIM, NCS	Cash flow shortfalls: total of €15k in late 2022 (paid from personal account and no owner withdrawals)
	Owner injections: €5k in late 2022
H – medium	Cash flow shortfall: €2k in 2017 and €2k in late 2022 (borrowed from family)
	Owner injections: €2k in August and €1k in November 2022
I – large, AIM	Formal loans: 2018 to 2024: €30k loan with €600 monthly repayments
	Owner injections: €2k to €5k per year in 2016 to 2021 and €100 to €400 per month in January to June 2022
Other types	
J – for-profit, rural, small	Cash flow shortfall: €10k and €15k in 2014, €3k in 2015 and €3k in 2018 (addressed with formal loans)

Service	Cash flow issues, formal loans and owner injections
	Formal loans: €10k / €3k / €5k / €3k / €3k in 2014, 2015, 2017, 2018 and 2019. Annual repayments of €5k to €6k from 2016 for personal start-up loans.
	Owner injections: €100 in 2016 and €500 in 2018 and 2019
K – for-profit, urban, medium, AIM, NCS	Cash flow shortfall: €30k informal loan from owner in July 2022 and €15k in late 2022 (paid from personal account).
L – community, rural, small, no grad.	Cash flow shortfalls: €3k in late 2022 / early 2023 (not resolved)

Source: *Review questionnaire data*

Note: *Services A and D opened in 2018/19 and service F opened in September 2019. Service K had a new owner in January 2022 and could not provide any data for prior to 2021. For service B, the cash flow issue in 2022 could not be verified. For service K, the debt payments and cash flow issues could not be fully verified.*

Services' reports of their five most recent loans and their five most recent cash flow issues suggest that there were some cash flow issues for most of the 12 services (summarised in table 24), although these were mostly relatively minor.[47] Most of the 12 services reported some recent cash flow issues and/or had made owner injections into the business to ease less specific or smaller cash flow issues. Many of the cash flow incidents were in late 2022, although it is possible that less recent incidents may have been less likely to have been recalled. Three services resolved issues using personal funds, while three borrowed from family. In another two cases, wages were not paid or reduced and formal loans were used by one service to address a series of issues. Three services were currently making quite substantial repayments for formal loans. The interview evidence suggested that cash flow issues were more likely to occur at the end of the calendar year due to tax bills and some increase in expenditures for the Christmas period. One service (J) reported that it had moved to monthly payments to the Revenue in 2019, which had eased cash flow.

Although widespread among the 12 services, these cash flow issues did not, in general, appear to be critical to financial viability because they did not involve large amounts (relative to the business if not to personal resources) and were mainly resolved using informal sources. The need to suspend wage payments and the use of larger formal loans with substantial repayments indicate potentially more critical issues for a smaller number of the 12 services.

[47] It should be noted that cash flow issues are partly a subjective assessment and that they can be difficult to measure or verify because actions may be taken to resolve them before the problem fully materialises in the data.

Annex C: Comparisons between 2019 and 2022

This annex considers how the financial position of providers changed with the introduction of Core Funding in September 2022. The first section explains how this was explored using comparisons with 2019 and between the first and second part of 2022. The second section provides headline numbers for changes in profitability between 2019 and 2022 and within 2022 and considers how this relates to changes in owner withdrawals for sole traders. The third and fourth sections explore more deeply the changes in revenue and operating expenditures.

The key findings from this chapter are:

- There was no single good comparison to consider the impact of the introduction of Core Funding, so two comparisons were used. The first was between 2019 and the second part of 2022 to compare the "new normal" post-Covid funding stream with the previous "normal". The second, between the first part (January to July) and second part (August to December) of 2022, captured the combined impacts of the ending of Covid supports, the new funding stream and inflationary conditions in late 2022. (section C.1)

- Four services were in a similar or slightly better financial position (as measured by the EBIT margin) in the second part of 2022 compared to 2019, and five services were in a weaker financial position (no 2019 data was available for three services). Within 2022, the financial position deteriorated between the first and second parts of the year for 11 of the 12 services. (section C.2)

- For the nine sole traders in the review, the changes in net owner withdrawals between 2019 and the second part of 2022 and within 2022 followed the pattern in the EBIT margins. (section C.2)

- Within 2022, the main source of lower revenue in the second part of 2022 for the 12 services was the phasing out of EWSS. The combined impact of changes to ECCE funding and the introduction of Core Funding meant that four services had higher total funding from DCEDIY, while four services received about the same amount (in spite of declines in ECCE registrations for three of these services). The remaining four services received lower total DCEDIY funding, either due to the loss of AIM Level 7 funding (for three services) or a combination of fewer ECCE registrations and loss of more substantial transition funding (one service). (section C.3)

- Within 2022, most of the 12 services had increases in weekly expenditures across the board for staffing, venue and other costs, with many of the 12 services experiencing substantial increases in their staffing costs. (section C.4)

C.1 Drawing comparisons

There were two key challenges in assessing how the introduction of Core Funding in September 2022 affected services' financial positions.

The first challenge was to identify an appropriate comparison period prior to September 2022. In the immediately preceding period, services were still receiving substantial and unusual support from EWSS. Hence, while a comparison with this period might capture the immediate impact, it would mix the effects of the removal of generous, but temporary, Covid-related supports with those of the new funding stream. In addition, autumn 2022 was a period of substantial cost inflation, which muddled the financial impacts further. An alternative was to consider using data from 2019, prior to the pandemic and Covid-related supports, which would allow comparisons to be drawn between the pre-Covid "normal" and what will be the "new normal" under the new funding stream. The drawback of this longer comparison is that it might mix the longer-term (permanent) financial impacts of Covid on services with the impacts of the change in funding streams. However, considering the effects of both may be more useful for informing future policy development than separately understanding the impact of each.

As they each have their own insights, both comparisons are presented. The comparisons between 2019 and the second part of 2022 capture how the "new normal" post-Covid, new funding stream context compares with the previous "normal". The comparisons between the first part (January to July) and second part (August to December) of 2022 measure the combined impacts of the ending of the temporary Covid supports, the new funding stream and changing financial conditions in autumn 2022. This latter comparison may better capture and help explain services' perceptions of the impact of the change in funding streams. It also has the advantage of detailed data on different revenue sources and types of expenditures.

The second challenge was that data for the period following the introduction of Core Funding in September 2022 was only available for a short period (until December 2022). This period was extended to include August because many services received revenue in August for the coming term. Given the differing lengths of the three periods being compared (2019, January to July 2022 and August to December 2022), the data for revenue, operating expenditure and operating profit needed to be converted to weekly amounts to make them comparable. All amounts were therefore summed across the relevant months and divided by 38 weeks for 2019, 23 weeks for the first part of 2022 and 15 weeks for the second part of 2022.[48] Other divisions of the 38 weeks within 2022 were considered, but the 23 and 15 split delivered the most reasonable numbers. These weekly amounts were then used to derive the EBIT margin for each period. The weekly amounts for revenue and income were also of convenient

[48] For the service open for 44 weeks, the division was 26 and 18 weeks within 2022 (and the service did not have any data for 2019).

magnitudes to compare changes in amounts between the periods, while owner withdrawals were more conveniently compared on an average monthly basis for each period.[49]

One further consideration was the change in payment schedules, with Core Funding paid over 12 months rather than over ten months for the ECCE funding that it partly replaced. This would reduce the average weekly revenue in the second part of 2022 because some of the income would not be received until the summer months in 2023. This was considered by increasing the Core Funding received in the second part of 2022 to the level that would have been paid if payment had been over ten months.[50] These higher levels had little impact on the analysis[51] and did not qualitatively affect the findings. The actual amounts received are therefore used to reflect the actual position of services in the second part of 2022.

C.2 Profitability in 2019 and 2022

Tables 25 and 26 summarise the headline changes in financial position between 2019 and 2022 and between the two parts of 2022.[52] The first two columns in table 25 present the percentage changes in average weekly revenue and average weekly expenditure between 2019 and the second part of 2022, while the third and fourth present these measures for the changes between the first and second parts of 2022. Table 26 compares the EBIT margins for the three periods. For three services, comparisons could only be drawn within 2022 because of the absence of data for 2019.

Four of the 12 services (A, H, I and J) were in a similar or slightly better financial position at the end of 2022 as in 2019, and there was no substantial deterioration within 2022 for one service (F) without data for 2019:

- Three services (H, I and J) were in a similar financial position in the second part of 2022 as in 2019 but were in a slightly weaker position than in the first part of 2022 due to a spike in the EBIT margin in the first part of 2022. Compared to 2019, neither revenue nor expenditure changed substantially (reflecting little change in ECCE registrations for service H) or increased at similar rates (reflecting a 19% increase in ECCE registrations for service I).[53] Within 2022, revenue decreased more than

[49] Net monthly owner withdrawals for 2019 are the reported annual total divided by 12 and are the sum of the monthly reports for January to July 2022 divided by seven and the sum of the monthly reports for August to December divided by five.

[50] This was implemented by multiplying the Core Funding by 1.27 for services open for 38 weeks because the weekly payment value for services is equivalent to 73% of their weekly allocation and by 1.15 for services open for 44 weeks because the weekly payment value for services is equivalent to 85% of their weekly allocation.

[51] The adjustment in the Core Funding amount affected the percentage change in income within 2022 by less than five percentage points and the EBIT margin in the second part of 2022 by less than five percentage points for nine services. For service G, the change in income reduced from -21% to -16% and the EBIT margin improved from -5% to 1%. For service I, the change in income increased from 14% to 20% and the EBIT margin improved from 35% to 38%. For service L, the change in income increased from 4% to 11% and the EBIT margin improved from -53% to -44%.

[52] The changes in revenue and expenditure within 2022 are explored in greater depth in the following two sections.

[53] The number of children registered for the calendar year 2019 was estimated from administrative data as the 2018/19 registrations multiplied by two-thirds and the 2019/2020 registrations multiplied by one-third. The change between 2019 and the

expenditure or increased less than expenditure (while no changes in child hours were reported[54]).

- One service (A) was in a slightly better financial position in the second part of 2022 than in 2019 but was in a slightly weaker position than in the first part of 2022 due to a spike in the EBIT margin in the first part of 2022. The substantial increases in both revenue and expenditure from 2019 reflected that this was the initial year of operation with low initial levels of both.[55] Within 2022, expenditure substantially increased, although revenue changed little in line with no change in reported child hours.

- There was little change in financial position within 2022 for service F because revenue and expenditure increased at a similar rate, although owner-reported child hours only increased by 2%.

On the other hand, five of the 12 services were in a weaker financial position at the end of 2022 than in 2019, while there were substantial deteriorations within 2022 for two services without data for 2019:

- Two services (C and E) were in a weaker financial position in the second part of 2022 than in 2019, but the deterioration within 2022 was considerably greater, again due to a spike in the EBIT margin in the first part of 2022. Compared to 2019, both revenue and expenditure were lower (partly reflecting substantial declines in the number of ECCE registrations of 47% for service C and 35% for service E), but the decline in revenue was greater. Within 2022, revenue declined (reflecting declines in owner-reported child hours within 2022 of 18% for service C and 21% for service E) and expenditure increased.

- Three services (B, D and G) were in weaker financial positions in the second part of 2022 than in 2019, with part of this ongoing deterioration occurring within 2022. For services B and D, expenditures were considerably higher compared to 2019 (without much difference in revenue in spite of a 50% increase in ECCE registrations for service D), while revenue declined within 2020 (with little change in owner-reported child hours for either service). For service G, revenue was lower compared to 2019 (partly reflecting a 39% decline in ECCE registrations) without much difference in costs, and revenue declined more than expenditure declined within 2022 (with little change in owner-reported child hours).

- The financial position within 2022 deteriorated due to a decline in revenue for service K (with little change in owner-reported child hours) and due to a greater increase in

second part of 2022 was the figure for 2022/23 minus this estimate for calendar year 2019. The change was a decline of 2% for service H and could not be estimated for service J due to the absence of ECCE registration numbers prior to 2022/23.

[54] The changes in child hours within 2022 derived from the owners' reports of child hours are presented in the final column in table 3.

[55] The number of ECCE registrations was not available for the first year of operation in 2018/19.

expenditure than the increase in revenue for service L (partly reflecting an increase in owner-reported child hours of 37%).

Table 25 Changes in total revenue and total expenditure

	Change between 2019 and Aug / Dec 2022		Change between Jan / July and Aug / Dec 2022	
	Revenue	Cost	Revenue	Cost
Rural sole traders				
A – small	195%	144%	7%	93%
B – small	3%	39%	- 21%	2%
C – small, no grad.	- 50%	- 34%	- 24%	26%
D – small, multisite, AIM	3%	34%	- 13%	- 1%
E – large, AIM	- 18%	- 5%	- 22%	14%
Urban sole traders				
F – medium, 44 weeks, AIM, NCS			9%	16%
G – medium, under 2s, AIM, NCS	- 23%	- 3%	- 21%	- 9%
H – medium	0%	5%	- 21%	- 7%
I – large, AIM	35%	39%	14%	23%
Other types				
J – for-profit, rural, small	6%	3%	- 14%	- 12%
K – for-profit, urban, medium, AIM, NCS			- 48%	- 3%
L – community, rural, small, no grad.			4%	49%

Source: *Review questionnaire data*

Note: *There are no 2019 comparisons for service F because it opened in September 2019; for service K because it had a new owner in January 2022 and could not provide any data for prior to 2021; and for service L because annual accounts were not available for the calendar year 2019. Figures for 2019 for service G are for year end in June. For service A, the increase in costs in the second part of 2022 was primarily due to depreciation of assets. See section 5.1 for further explanation of the estimation of the changes.*

Table 26 EBIT margin in 2019 and 2022

EBIT margin	2019	Jan / July 2022	Aug / Dec 2022
Rural sole traders			
A – small	53%	79%	61%
B – small	34%	31%	10%
C – small, no grad.	37%	50%	17%
D – small, multisite, AIM	36%	27%	17%
E – large, AIM	0%	21%	- 16%
Urban sole traders			
F – medium, 44 weeks, AIM, NCS		35%	30%
G – medium, under 2s, AIM, NCS	17%	9%	- 5%
H – medium	56%	61%	54%
I – large, AIM	37%	40%	35%
Other types			
J – for-profit, rural, small	54%	57%	56%
K – for-profit, urban, medium, AIM, NCS		40%	- 13%
L – community, rural, small, no grad.		- 7%	- 53%

Source: Review questionnaire data

Note: There are no 2019 comparisons for service F because it opened in September 2019; for service K because it had a new owner in January 2022 and could not provide any data for prior to 2021; and for service L because annual accounts were not available for the calendar year 2019. Figures for 2019 for service G are for year end in June.

No evidence was found that changes in child or staff numbers were a driver of the general pattern of declining EBIT margins within 2022. As shown in table 3, only two services had substantial changes in owner-reported child hours within 2022 (and the owners reported no increases in staff hours within 2022). For service E, the 21% reduction in child hours (derived from the owner's reported child hours) were associated with a 38% reduction in staff hours (derived from the owner's reported staff hours). For service C, the 18% reduction in child hours (derived from owner's reported child hours) was associated with no change in staff hours (reported by the owner) and a decline in the EBIT margin. However, a single case with a small decline in the number of child hours per staff hour (according to owner reports of child hours and staff contact hours) among the many cases of a decline in the EBIT margin within 2022 does not present a pattern of association.

Table 27 compares the average monthly owner withdrawals across the three periods for the nine sole traders. For five services (A, B, F, H and I), the pattern of net owner withdrawals follows the pattern in the EBIT margins, including where there are spikes in the first part of 2022. Average withdrawals were considerably lower in the second part of 2022 than in the first part for five services (A, B, C, G and H), while there was little change for three other services (E, F and I) .

Table 27 Monthly net owner withdrawals in 2019 and 2022

Mean monthly net owner withdrawals (rounded to €100)	2019	Jan / July 2022	Aug / Dec 2022
Rural sole traders			
A – small	- €100	€1,800	€1,200
B – small	€1,600	€1,300	€400
C – small, no grad.	€1,500	€1,000	€600
D – small, multisite, AIM	€1,900	€3,700	€6,000
E – large, AIM	€1,800	€2,700	€2,400
Urban sole traders			
F – medium, 44 weeks, AIM, NCS		€1,900	€1,900
G – medium, under 2s, AIM, NCS	€1,900	€2,700	- €500
H – medium	€3,800	€5,100	€3,700
I – large, AIM	€4,000	€5,000	€4,900

Source: Review questionnaire data

Note: There are no 2019 comparisons for service F because it opened in September 2019. Figures for 2019 for service G are for year end in June. See section 6.1 for further explanation of the estimation of the changes.

C.3 Revenue in 2022

Changes in revenue between the first and second parts of 2022 reflected two changes in policies:

- Covid supports (including EWSS) were gradually withdrawn and briefly replaced with transition funding (paid by DCEDIY) to support services into the new funding model in the first part of 2022. However, the new funding model was not intended to replace the level of support provided by these pandemic measures.

- Core Funding was introduced in September and included elements which replaced the Programme Support Payment (PSP) and the graduate capitation element in the ECCE hourly rate. The element replacing PSP[56] continued to include funding for non-contact

[56] The budget previously allocated for PSP was increased by 49%.

time and for administrative staff in the allocation calculation for staff pay and conditions in the base rate.[57] Services on the standard capitation for ECCE received an increase in funding of at least 9.5% with the replacement of the standard ECCE rate and PSP with the base ECCE rate and Core Funding. For services with graduate capitation for ECCE, the initial calculation of the new funding level could be lower because the graduate benefit could be less under Core Funding for services which had large ECCE groups with high occupancy levels.[58] For such services, there was a funding guarantee whereby services received the same level of funding under Core Funding as they received from higher capitation and PSP even if the number of children participating had reduced.[59] [60]

The withdrawal of Covid supports meant that other government (not DCEDIY) funding and other DCEDIY (not ECCE) funding could be lower in the second part of the year, while the introduction of Core Funding could mean lower ECCE funding (because of the removal of PSP and higher capitation) and higher other (not ECCE) DCEDIY funding. The change in the support for the graduate premium could have affected all services in the review except for services C and L which did not receive ECCE graduate capitation in the first part of 2022 and did not receive the graduate premium in Core Funding in the second part of 2022.

In addition, changes in revenue between the first and second parts of 2022 would reflect changes in provision delivery specific to the service, including changes in the number of children registered for ECCE (affecting ECCE funding), changes in the receipt of funding for Level 7 AIM and NCS (affecting other DCEDIY funding) and changes in parent-paid hours or fees and other private income (affecting private income). As shown in table 3, four of the 12 services had substantial changes in provision within 2022:

- Service C had an 18% decline in the number of children registered for ECCE and an 18% decline in owner-reported child hours.

- Service D had an 18% decline in the number of children registered for ECCE but only a 2% decline in owner-reported child hours.

- Service E had a 13% decline in the number of children registered for ECCE and a 21% decline in owner-reported child hours.

[57] The allowance for non-contact time was derived in two parts. First, data from the Sector Profile on the current amount of contact and non-contact time for different grades of staff was used to build an allowance for non-contact time. Second, there was an allowance for administrative staff and time.

[58] Graduate capitation under ECCE was based on the number of children participating in the ECCE session being led by a graduate whereas the premium is allocated as a top-up on the number of hours of provision that is led by a graduate under Core Funding.

[59] Assuming that the numbers of graduate staff and the type of service offered were unchanged.

[60] Very few services received the funding guarantee: just 62 services from a total of 4,200 services.

- Service L had a 60% decline in the number of children registered for ECCE and a 37% *increase* in owner-reported child hours. The reduction in government-funded hours was more than offset by an increase in parent-paid hours for this service.

Tables 28 to 30 present the revenue sources for the first and second parts of 2022 for the 12 services in the review.

Table 28 Revenue sources in 2022: rural sole traders

	January to July	%	August to December	%
A – small	ECCE	98%	ECCE	84%
	Transition funding	2%	Core Funding	16%
B – small	ECCE	82%	ECCE	85%
	AIM Level 7	9%	Core Funding	15%
	Transition funding	1%		
	Sustainability funding	3%		
	EWSS	6%		
C – small, no grad.	ECCE	92%	ECCE	90%
	Transition funding	0.1%	Transition funding	1%
	Other funding / grants	8%	Core Funding	9%
D – small, multisite, AIM	All DCEDIY	79%	All DCEDIY	99%
	EWSS	19%	Other funding / grants	0.5%
	Other funding / grants	0.3%	Other private income	0.4%
	Parent fees / charges	2%		
E – large, AIM	ECCE	66%	ECCE	81%
	AIM Level 7	6%	AIM Level 7	8%
	Early years capital	2%	Core Funding	10%
	Transition funding	11%	Other funding / grants	1%
	EWSS	15%	Parent fees / charges	0.4%
	Parent fees / charges	1%		

Source: *Review questionnaire data*

Note: *ECCE includes LINC (Leadership for INClusion). Columns may not sum to 100% due to rounding. No EWSS was received for service A because it had no employed staff. Service C used EWSS in 2020 but not in 2022. For service D, all DCEDIY income was reported as a single amount. Service B does not include AIM in its description because it only received AIM income in the first part of 2022 and not in autumn 2022 for the administrative year 2022/23.*

Table 29 Revenue sources in 2022: urban sole traders

	January to July	%	August to December	%
F – medium, 44 weeks, AIM, NCS	ECCE	49%	ECCE	47%
	AIM Level 7	8%	AIM Level 7	8%
	NCS	17%	NCS	13%
	CCSP	4%	CCSP	7%
	Transition funding	3%	Core Funding	17%
	EWSS / other funding / grants	20%	Other funding / grants	8%
G – medium, under 2s, AIM, NCS	ECCE	46%	ECCE	46%
	AIM Level 7	5%	NCS	4%
	NCS	3%	Core Funding	19%
	Transition funding	1%	Parent fees / charges	31%
	EWSS	23%		
	Other funding / grants	2%		
	Parent fees / charges	16%		
	Charitable / fundraising	4%		
H – medium	ECCE	78%	ECCE	85%
	AIM Level 7	12%	Core Funding	15%
	Transition funding	1%		
	Sustainability funding	4%		
	EWSS	4%		
	Other funding / grants	2%		
I – large, AIM	ECCE	84%	ECCE	66%
	AIM Level 7	3%	AIM Level 7	14%
	Transition funding	1%	Core Funding	20%
	EWSS	12%		

Source: *Review questionnaire data*

Note: *ECCE includes LINC (Leadership for INClusion). Columns may not sum to 100% due to rounding. Service F received NCS payments but no parent-paid fees. For service F, EWSS payments were included in other government funding and grants. Service H does not include AIM in its description because it only received AIM income in the first part of 2022 and not in autumn 2022 for the administrative year 2022/23.*

Table 30 Revenue sources in 2022: other types

	January to July	%	August to December	%
J – for-profit, rural, small	ECCE	89%	ECCE	82%
	Parent fees / charges	11%	Core Funding	18%
			Parent fees / charges	0.2%
K – for-profit, urban, medium, AIM, NCS	ECCE	80%	ECCE	80%
	AIM Level 7	17%	AIM Level 7	6%
	Parent fees / charges	3%	NCS	1%
			Core Funding	13%
			Parent fees / charges	1%
L – community, rural, small, no grad.	ECCE	54%	ECCE	21%
	NCS	3%	NCS	15%
	CCSP	12%	CCSP	10%
	Transition funding	3%	Core Funding	24%
	EWSS	6%	Parent fees / charges	6%
	Parent fees / charges	2%	Charitable / fundraising	8%
	Charitable / fundraising	6%	Other private	16%
	Other private	15%		

Source: Review questionnaire data

Note: ECCE includes LINC (Leadership for INClusion). Columns may not sum to 100% due to rounding. No EWSS was received for service J because there were no paid staff. For service K, no income was received from EWSS because the service was not legally registered until October 2022

Income from ECCE was the predominant source of revenue for almost all of the 12 services in both parts of 2022 (the exception being the second part of 2022 for service L), although it constituted just under half of total revenue for two services (F and G). In the first part of 2022, revenue from EWSS and/or transition funding constituted around 20% to 25% of total revenue for four services (D, E, F and G), but less than 15% for six services (A, B, C, H, I and L) and was not received by two services (J and K). In the second part of 2022, the proportion of revenue from Core Funding ranged from 9% to 24% but without any clear patterns across the types of service.

Table 31 considers the changes in average weekly revenue between the first and second parts of 2022, grouped into ECCE funding, other DCEDIY funding (including Core Funding), other government funding and private income.

Table 31 Changes in weekly revenue during 2022

Mean weekly amounts rounded to €100 (or €1 if less than €100)		ECCE	Other DCEDIY	Other govt.	Private income
Rural sole traders					
A – small	Jan / July	€900	€15	€0	€0
	Aug / Dec	€800	€200	€0	€0
B – small	Jan / July	€1,900	€300	€100	€0
	Aug / Dec	€1,600	€300	€0	€0
C – small, no grad.	Jan / July	€700	€1	€65	€0
	Aug / Dec	€600	€61	€0	€0
D – small, multisite, AIM	Jan / July	€3,200		€800	€75
	Aug / Dec	€3,500		€17	€14
E – large, AIM	Jan / July	€4,700	€1,300	€1,000	€51
	Aug / Dec	€4,500	€1,000	€63	€23
Urban sole traders					
F – medium, 44 weeks, AIM, NCS	Jan / July	€1,100	€700	€400	€0
	Aug / Dec	€1,200	€1,100	€200	€0
G – medium, under 2s, AIM, NCS	Jan / July	€1,800	€300	€1,000	€800
	Aug / Dec	€1,400	€700	€0	€1,000
H – medium	Jan / July	€2,600	€600	€200	€0
	Aug / Dec	€2,300	€400	€0	€0
I – large, AIM	Jan / July	€3,700	€200	€500	€0
	Aug / Dec	€3,300	€1,700	€0	€0
Other types					
J – for-profit, rural, small	Jan / July	€1,000	€0	€0	€100
	Aug / Dec	€800	€200	€0	€1
K – for-profit, urban, medium, AIM, NCS	Jan / July	€4,300	€900	€0	€200
	Aug / Dec	€2,300	€500	€0	€25
L – community, rural, small, no grad.	Jan / July	€400	€100	€38	€200
	Aug / Dec	€100	€400	€0	€200

Source: Review questionnaire data
Note: ECCE includes LINC (Leadership for INClusion). For service D, all DCEDIY income was reported as a single amount.

For the funding from DCEDIY:

- Almost all of the 12 services had lower average ECCE weekly funding in the second part of 2022. This would have reflected the removal of payments for PSP for all services and the graduate capitation for all services except services C and L. In addition, services C, E and L had declines in the numbers of children registered for ECCE, which would have reduced funding.[61]

- Most of the 12 services had higher average weekly other DCEDIY funding in the second part of 2022, reflecting the introduction of Core Funding. Four services had the same or lower other DCEDIY funding in the second part of the year, reflecting either substantial loss of transition funding (service E) or loss of AIM Level 7 funding (services B, H and K). On the other hand, the increase in other DCEDIY funding for service I was boosted by an increase in Level 7 AIM funding.

- The combined impact of these changes meant that four services (A, D, F and I) had a higher combined revenue from ECCE and other DCEDIY, while four services (C, G, J and L) received about the same amount (in spite of the declines in ECCE registrations for services C and L). The remaining four services (B, E, H and K) received a lower amount, either due to the loss of AIM Level 7 funding (services B, H and K) or a combination of fewer ECCE registrations and loss of more substantial transition funding (service E).

As would be expected with the phasing out of the EWSS, revenue from other government funding was substantial for some of the 12 services in the first part of 2022 but almost entirely disappeared in the second part of 2022. There was little change in the revenue from private sources for the 12 services, other than notable reductions for services J and K (although these were not substantial reductions relative to total revenue).

C.4 Expenditure in 2022

Tables 32 and 33 present analogous pictures for expenditures on staffing, venue-related costs and other operating costs. Staff costs include employer costs for salaries (including Payment Related Social Insurance (PRSI) and pension contributions) as well as training and recruitment costs. Venue costs include rent, mortgage payments, building management fees, rates and utility costs. Other costs include all other expenses such as materials, food, cleaning, stationery, insurance and accounting fees.

[61] Only service F had a small increase in the average ECCE weekly funding, which may have been related to being the only service operating for 44 weeks each year and the presumed division of hours between the first and second parts of 2022.

Table 32 Expenditure types in 2022

Percentage of all expenditure		Staff	Venue	Other
Rural sole traders				
A – small	Jan / July	0%	18%	82%
	Aug / Dec	11%	10%	79%
B – small	Jan / July	40%	19%	41%
	Aug / Dec	46%	15%	40%
C – small, no grad.	Jan / July	56%	29%	15%
	Aug / Dec	33%	31%	37%
D – small, multisite, AIM	Jan / July	80%	5%	15%
	Aug / Dec	67%	6%	27%
E – large, AIM	Jan / July	77%	12%	11%
	Aug / Dec	74%	12%	14%
Urban sole traders				
F – medium, 44 weeks, AIM, NCS	Jan / July	58%	30%	12%
	Aug / Dec	50%	29%	20%
G – medium, under 2s, AIM, NCS	Jan / July	75%	11%	13%
	Aug / Dec	80%	13%	7%
H – medium	Jan / July	52%	6%	42%
	Aug / Dec	58%	6%	36%
I – large, AIM	Jan / July	57%	7%	36%
	Aug / Dec	59%	6%	35%
Other types				
J – for-profit, rural, small	Jan / July	0%	13%	87%
	Aug / Dec	0%	16%	84%
K – for-profit, urban, medium, AIM, NCS	Jan / July	71%	20%	9%
	Aug / Dec	58%	21%	21%
L – community, rural, small, no grad.	Jan / July	83%	0%	17%
	Aug / Dec	72%	0%	28%

Source: *Review questionnaire data*

Note: *Columns may not sum to 100% due to rounding. For service A, staff costs in the second part of 2022 were for staff training. Service L pays no venue costs because these are paid by the development company which manages the service.*

Table 33 Changes in weekly expenditure in 2022

Mean weekly amounts rounded to €100 (or €1 if less than €100)		Staff	Venue	Other
Rural sole traders				
A – small	Jan / July	€0	€36	€200
	Aug / Dec	€43	€39	€300
B – small	Jan / July	€600	€300	€700
	Aug / Dec	€800	€200	€700
C – small, no grad.	Jan / July	€200	€100	€61
	Aug / Dec	€200	€200	€200
D – small, multisite, AIM	Jan / July	€2,400	€100	€500
	Aug / Dec	€2,000	€200	€800
E – large, AIM	Jan / July	€4,300	€700	€600
	Aug / Dec	€4,800	€800	€900
Urban sole traders				
F – medium, 44 weeks, AIM, NCS	Jan / July	€800	€400	€200
	Aug / Dec	€900	€500	€300
G – medium, under 2s, AIM, NCS	Jan / July	€2,700	€400	€500
	Aug / Dec	€2,600	€400	€200
H – medium	Jan / July	€700	€100	€600
	Aug / Dec	€700	€73	€400
I – large, AIM	Jan / July	€1,500	€200	€1,000
	Aug / Dec	€1,900	€200	€1,200
Other types				
J – for-profit, rural, small	Jan / July	€0	€60	€400
	Aug / Dec	€0	€65	€300
K – for-profit, urban, medium, AIM, NCS	Jan / July	€2,300	€700	€300
	Aug / Dec	€1,800	€700	€700
L – community, rural, small, no grad.	Jan / July	€600	€0	€100
	Aug / Dec	€800	€0	€300

Source: Review questionnaire data

Note: For service A, staff costs in the second part of 2022 were for staff training and the increase in other costs was primarily due to asset depreciations. Service L pays no venue costs because these are paid by the development company which manages the service.

As would be expected, table 33 shows that the majority of costs are staff-related for almost all of the 12 services (with the exception of services A and J, which had no staff receiving a salary). Several of the 12 services had very low venue costs, reflecting that they paid no rent or mortgage costs. Across all of the 12 services, there was no broad change in the structure of costs between the first and second part of 2022. The occasional larger changes for some services reflect infrequent expenses set against a generally low expenditure base.

Most of the 12 services had increases in weekly expenditures across the board for all three categories (table 19), driving the expenditure increases shown in table 11. Many of the 12 services had substantial increases in their staffing costs,[62] the exception being service K, which had notably lower staff costs in the second part of 2022. Lower total expenditures for three services (G, H and J) primarily reflect reductions in other costs which are likely to be more discretionary than staffing or venue-related costs.[63] Further discussion of the expenditure increases are presented in the case studies in chapter 4.

[62] None of the owners of the 12 services reported substantial changes in total staff hours between the first and second parts of 2022, so this most likely reflected higher staff pay.

[63] Expenditures may not have fallen with the removal of Covid restrictions because costs may not have risen much during Covid; the costs are reported to be ongoing for some service; or subsequent inflation has exceeded any cost reductions.