COSTING CENTRE-BASED EARLY CHILDHOOD DEVELOPMENT PROGRAMMES FOR CHILDREN UNDER AGE FIVE:

CASE STUDIES FROM THE WESTERN CAPE

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This paper was prepared as part of an investigation into ways of rapidly scaling up of quality early childhood development services for poor children under the age of five. This is a major service delivery gap, and could potential generate hundreds of thousands of jobs.

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Abbreviations and terminology

CC	closed corporation
CSG	child support grant
DoE	Department of Education
DoH	Department of Health
DSD	Department of Social Development
ECD Centre	Early Childhood Development Centre
ELRU	Early Learning Resources Unit
EPWP	Expanded Public Works Programme
HBC	home-based centre
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome
MEC	Member of the Executive Council [of the province]
NGO	non-governmental organisation
NIP	National Integrated Plan
NPO	non-profit organisation
PBO	public benefit organisation
Principal	the head of the school, who may or may not report to a governing body or management board
SAEP	South African Environment and Education Project
SARS	South African Revenue Service
SGB	School Governing Body
SITY	shack in the yard
WCED	Western Cape Department of Education

Executive summary

Purpose of this study

This paper captures information about the cost of providing ECD for children under the age of five through different forms of centre-based provision. It also sought to identify existing and possible innovations that would contribute to cost efficiencies in the scaling up of ECD that could apply to the centre-based portion of the National Integrated Plan (NIP) goals for going to scale.

This paper is a contribution to a series of studies aimed at contributing to the scaling up of early childhood development services for poor and vulnerable children under the age of five. The central objective of the series was to provide solid evidence on what might be required to rapidly scale up ECD 0-4 to an acceptable quality so as to meet service delivery objectives, in the current South African context.

Research method

Twenty-one ECD centres were visited in the Western Cape. A structured questionnaire was used to capture qualitative and quantitative information about income and expenditure and factors affecting centres' ability to raise income and save costs. Three of these centres serve middle- to upper-income families and are therefore not subsidised by government. The remaining centres serve communities where a significant proportion of households are poor enough to qualify for Department of Social Development (DSD) subsidies; 12 of them were receiving subsidies. Only cost information from these 18 centres was analysed.

In addition to the above, experts working in the field and at the grassroots level and department officials from the Western Cape Provincial DSD and Cape Town Unicity were interviewed to collect additional perspectives.

After the first draft of this report was presented to a steering committee in December 2008 The Western Cape Community Chest became aware of the project and provided a database that enable the analysis of financial statements from 149 centres. Salary information from that database is used in this study.

Recording of cost structures

A typology of ECD facilities was created by the researchers. Five different types of centre were identified. A description of each and required pathways for development were developed and used to inform the structuring of the cost forecasting model. The five types of centre are named in the study as follows:

- Shack in the Yard (SITY)
- The Edutainer

- The Home-Based Centre (HBC)
- The Evening Star
- The Established Centre

Costs and prices collected during the research were used to estimate the financial needs of each type of centre. The costs are presented as outcomes of a price × quantity calculation. If the quantities used in the calculations are used correctly, they *should* lead to quality care. Two Excel models were developed to reflect the cost structures and income streams of centres visited. The models were developed intentionally to be used as financial planning tools for centres and as an outcome could therefore provide a way to test the financial feasibility of input prices and quantities.

Similarly, the prices used in these calculations assume a level of quality of input (especially in the case of salaries); however, this research has found that salaries paid and the quality of care provided by staff often have no relationship. The nature of the service is extremely complex, and this complexity is hidden in the simplistic cost estimates provided by the model. That is a limitation of any costing exercise.

The largest cost item of all centres is salary costs and therefore the cost per child will vary to the extent that the children to practitioner ratios vary and the salary levels vary. Both of these vary substantially in the sector and therefore assumptions have been made about both of these. Table E1 shows the outputs of calculations using the financial models described in this report. Detailed information on input costs are provided in Tables 2.1 to 2.4. The salary information used in the calculations is based on an analysis of 2007/2008 financial statements from 149 ECD centres in the Western Cape that are supported by the Community Chest.

Table E1 shows the cost per child per day and the shortfall after subsidies per child per month using three different salary levels and two different children to practitioner ratios. The higher children to practitioner ratios (meaning more children per practitioner) are based on the norms and standards that existed at the time of writing. The recommended ratios were based on the expert knowledge of one of the authors.

Table E1 – Comparative analysis of per child per day costs and shortfalls per child per month

	Edutainer	HBC	Evening Star	Centre
Number of Children in a Centre	25	60	120	250
Subsidies Paid				
Number of Children Receiving DSD R9 subsidy per day	25	60	90	150
Number of children receiving DOE R7 subsidy per day of attendance			30	80
Number of children receiving DSD R5 after care subsidy				80
Total Cost Per Child Per Day				
Recommended Ratios				

Low Salaries	R 13.82	R 12.36	R 13.38	R 12.09
Middle Salaries	R 16.66	R 15.01	R 16.25	R 14.14
Highest Salaries	R 27.44	R 25.74	R 27.09	R 22.09
Minimum Norms and Standards				
Low Salaries	R 13.82	R 10.96	R 12.24	R 11.36
Middle Salaries	R 16.66	R 13.18	R 14.76	R 13.30
Highest Salaries	R 27.44	R 21.46	R 23.62	R 18.46
Shortfall Per Child Per Month After Subsidy				
Recommended Ratios				
Low Salaries	R 106	R 74	R 91	R 61
Middle Salaries	R 168	R 132	R 154	R 106
Highest Salaries	R 405	R 368	R 393	R 280
Minimum Norms and Standards				
Low Salaries	R 106	R 43	R 66	R 44
Middle Salaries	R 169	R 92	R 121	R 87
Highest Salaries	R 406	R 274	R 316	R 201

Table E1 shows:

- Current subsidies do not cover the operational costs of even the cheapest acceptable combination of ratios and staff salaries.
- The smallest amount a centre has to raise after receiving subsidies for all children (an unusual circumstance) is R43.
- Using middle level salaries and recommended ratios, the least a centre has to raise after receiving subsidies is R87 per month. This does not guarantee quality care.
- Smaller centres have the highest per child operational costs and as many of these are emergent they should be supported to ensure a minimum quality of care can be provided.

Establishment costs

The model produced for this project allow the user to estimate establishment costs, some of which are driven on a per child basis and some require the user to estimate needs of the centre as a whole. Table E3 reflects estimated establishment costs.

Table E3 – Estimated establishment costs

	SITY	Edutainer	HBC	Evening Star	Centre
Number of children per centre	25	25	65	120	230
Learning materials	R 7 850		R 15 701	R 23 551	R 47 102

Internal equipment for children	R 13 300		R 34 652	R 62 061	R 164 418
Storage/shelving	R 3 574		R 8 935	R 14 296	R 28 592
Kitchen equipment	R 8 997	R 8 997	R 11 996	R 24 684	R 29 734
External play and safety	R 6 200	R 6 200	R 6 200	R 30 100	R 52 300
Internal safety	R 720		R 720	R 1 000	R 1 720
Building costs	R 123 750		R 321 750	R 594 000	R 1 138 500
Fully equipped		R 180 000			
Transport		R 30 000			
Ablutions		R 15 000			
Total	R 164 391	R 240 000	R 399 953	R 749 692	R 1 462 366
Per child	R 6 575	R 9 607	R 6 153	R 6 247	R 6 358

The implications of the estimates in Table E3 are as follows:

- Although investments of the magnitude shown in the table, if spent correctly, will create an environment conducive to learning and quality care, the centre itself can in no way guarantee any level of quality service at any of the types of centres. The quality of care depends on the skills levels and attitude of the practitioner giving it.
- The estimates are calculated from a zero-starting point, whereas the SITY and the HBC are likely to build on existing houses and therefore the total cost of establishing these centres is likely to be lower than the estimates, especially in the case of the HBC.
- There are not likely to be any cost savings to the estimates for establishing an Edutainer; it is interesting to note that per child cost it is the most expensive option by a significant margin. The advantage of this type of centre is that it can be delivered very quickly, moved easily and the majority of the investment involved is not spent on improving the value of private property. At a significantly lower cost, a SITY can be upgraded into a centre that will provide a quality environment that will outlast the Edutainer; however this is fraught with problems associated with improving the value of private property.
- Based on the above analyses, with the exception of the Edutainers, there appears to be little difference in the per child cost of establishing any of the proposed types of centre, while the smaller centres appear to provide the least-cost 'model' for delivering services. As stressed throughout, the cost estimates give no indication of the quality of care provided and there is a need to perform further research in this regard.
- Note that the above range of options were visited during the study, however there are other options, such as flexi-homes which are pre-fabricated buildings, which often viable alternatives.

Tiers of organisational ability

Three criteria for assessing organisational ability are described. The capacities are defined in terms of four tiers of ability, with indicators of success at meeting the criteria at each tier. The skills involved at each tier, for each criterion, can be summarised as in the three tables below.

From a cost management perspective, centres should be evaluated on each criterion and be given support to reach at least tier three for all criteria, as once they are at level three for all criteria they are likely to be self-sustaining.

Criterion one – Financial management capacity:

	Basic description	*Indicator*
Tier 1	No noticeable systems in place	Not capable of producing financial statements
Tier 2	Basic systems in place	Claims to or does prepare financial statements but cannot find them
Tier 3	Working systems in place	Financial statements available in a file on site which also has monthly reconciliation as recent as two months prior to visit
Tier 4	Fully functional system in place	Financial statements and previous week's reconciliation immediately available

Criterion two – Management structures:

	Basic description	*Indicator*
Tier 1	No structures on record or apparent	No management system in place
Tier 2	Has structures on paper but not functional	SGB exists on paper, but minutes of meetings cannot be produced
Tier 3	Structures in place and SGB meets frequently	SGB can produce minutes of meetings
Tier 4	Explicit structures in place	SGB's support in fundraising initiatives

Criterion three – Registration:

	Basic description	*Indicator*
Tier 1	Vague understanding, no progress	Cannot demonstrate any effort made to register
Tier 2	Have taken first steps	Can show an effort has been made, but no outcomes
Tier 3	Registration in place	Evidence of application and/or registration as an NPO
Tier 4	All requirements complied with	PBO and NPO registration

Key findings on income and expenditure at ECD centres

Access to financial statements

Of the 18 centres that fell within the analysis, ten were able to produce financial statements. Three other centres prepared financial statements but they were not made available.

These are critical statistics as most of the centres that could produce financial statements were able to raise income from donors and/or fundraising activities, whereas very few of the centres that could not produce financial statements had any success when applying for donor funding. Good financial record-keeping is very important to donors.

Income and expenditure analysis

An analysis of the financial statements was performed and the average fees charged by centres were used as an imperfect indicator of the extent of poverty. Eight financial statements for the year ended March 2007 and two for the year ended March 2008 were analysed. The following observations were made:

- Salaries are the largest expenditure items at all the centres. Salaries as a proportion of total expenses ranged from 40 per cent to 80 per cent. Food averages 15 per cent of total expenditure; however, the financial statements cover a period preceding the recent food inflation.
- Subsidy income made up 9 per cent and 11 per cent of total income at two centres; the next-lowest figure was 38 per cent; and three centres relied on subsidies for more than 80 per cent of their income.
- There is a clear positive link between fees charged and the proportion they contribute to total income; however, fee income as a proportion of total income was only above 50 per cent at two centres.
- Only two centres did not receive non-fee and non-subsidy income during the period under analysis. However, on average 20 per cent of income came from donors and/or fundraising.

The case studies show that centres need additional resources to ensure minimum standards are maintained. It is recognised that government has financial constraints; however as the institutions exist to pay out and monitor the use of subsidies, increasing the subsidy per child paid to centres is an easy-to-implement recommendation that will increase resource flows to centres and still ensure accountability for the money. Even after subsidies are accounted for, and a monthly fee of R120, which is a large fee in relative terms, centres still need to raise between R 156 and R 261 **in addition to** fee revenue and subsidy income.

Currently, these funds must be sourced from donors. Centres that are well run and able to demonstrate financial management capacity are often able to access funds, although there is substantial variability in the sustainability of funds available for operational needs. The majority of centres struggle to complete forms and follow the procedures that South African donors require them to complete. One of these procedures is that they obtain non-profit organization registration, a process most of them find describe as extremely arduous and fraught with confusing delays. Building the capacity report financially and complete various application forms is likely to provide centres with skills that will enable to access much needed additional revenue, albeit probably not sufficient to meet their needs.

Government subsidies

Thirty-three per cent of the sample received subsidies from the Western Cape Department of Education (WCED) and 75 per cent received subsidies from the DSD. A small proportion of the centres had received ad hoc grants for learning materials from the departments in the past. There was a very limited understanding of the value of the subsidies or on what basis they were paid.

The centres that were subsidised by the WCED complained about the irregularity with which the department paid the centres, and one centre had not received its subsidy for more than 18 months.

All centres said that once they were in the system, DSD subsidies were paid regularly. However, to change their details and increase the number of children subsidised was very problematic.

Fundraising

At the wealthier facilities, fundraising events were generally very successful, whereas in the remainder of the sample there was a very mixed view on fundraising with no clear patterns. Experiences ranged from great success through fêtes and carnivals, to a once-a-year collection, to not even trying as previous attempts had been futile. Fundraising is not a reliable source of income for centres in the poorest communities.

Financial donations

The value of financial donations received by centres varied. Two significant observations were made:

- All centres that received substantial donations had good bookkeeping systems in place and could produce financial information on request.
- All these centres were assisted by either an intermediary body or a skilled member of a management board when applying for funds.

Food costs

Food costs were difficult to estimate and the majority of the centres complained about the rising food prices. Only two centres had what can be described as innovative arrangements to reduce food costs. Five centres received donated breakfasts and three of these received the meals cooked and ready to serve.

The Excel models use food costings based on the nutritional needs of a child as advised by the Department of Health.

Salary costs and staff ratios

The children-to-practitioner ratios in the ECD guidelines are adhered to at very few of the centres. Seven of the centres had 30 or fewer children and all these centres only employed two staff, one of whom would usually act as principal and the other as assistant teacher and cook, and they would share cleaning responsibilities. The middle third of the sample, in terms of number of children, mostly employed a teacher assistant who would 'float' across classes and most of these had a full-time cook. The largest centres had assistants in each class, at least one full-time cook and a cleaner. All centres that employed cooks and/or cleaners would use these staff occasionally to help with child care.

Fees and enforcing payment

Fees ranged from R30 per month in the areas outside Cape Town to R450 per month. Due to the range in fees, it is misleading to identify an average fee, but most centres in urban townships charged between R90 and R120 per month.

The centres that charged the highest fees were not subsidised; however, the majority of children at these centres would be subsidised if the centre was registered and therefore subsidising centres increases their affordability. If centres took children on the nappy, these children would be charged a higher fee and many centres only took children when they were off the nappy due to the higher costs of looking after this age group.

The most significant issues to arise with respect to fees and enforcing payment:

- Very few centres offered fee exemptions of any kind.
- Only two centres gave discounts to parents receiving the child support grant.
- Only two centres would give ultimatums to parents who did not pay fees; the rest made arrangements with the parents until they were able to pay fees.
- Most centres had a small group of parents who would pay intermittently; when they could not pay the non-payment would either be waived or the parents would be asked to pay off the fees through in-kind labour.
- Most principals are more concerned about the dangers the child might face or lost previous learning if he or she is taken out of the centre than about enforcing payment.

Principals appear to be under social pressure form their communities to take children in. Therefore relying on economic incentives to address overcrowding is not advised.

Training costs and needs

The sample was biased towards centres that were on training as they were accessed through a training organisation and its networks. All training attended was free and therefore accessible.

All respondents commented that they would like management and/or financial management training. Given that centres that are able to manage and record their finances well are able to access donor funds, it is critical that basic financial management training is provided.

Cost savings and innovations

Even though the research set out to find innovative practices that could be replicated elsewhere, no meaningful examples of this were found during the study. Some related issues are discussed below.

In-kind support and the use of volunteers

Very few centres could share any substantive examples of in-kind support they got from their communities, although many of the centres had received substantial help from donors and intermediary NGOs. Most centres are seen as businesses by community members, i.e. as opportunities to make money through trade.

The use of volunteers was very low. Five of the centres had an arrangement with an NGO who placed European volunteers; however, they received very mixed reviews.

A few centres had received used toys, learning material and equipment from other centres in their community. Therefore, a potential way to get materials to very needy and invisible centres is to give more materials to the established centres and encourage them to pass unused materials to other centres in their community.

Forum membership

A rumour has spread through most of the centres that they are required to belong to an ECD forum. They are encouraged to participate in fora, but there is no obligation. Centres shared very mixed experiences of the fora they belonged to. The smaller fora were generally spoken of highly for their value in sharing information.

Mentoring relationships

A few of the centres were mentored by intermediary organisations, which were also interviewed. The centres spoke very highly of the value of these relationships to them. The mentors spoke about how time-consuming and energy-sapping the mentoring relationships were, but how desperately they were needed. A lot of the energy is invested in completing very simple tasks (like completing an application for NPO registration). These mentors felt that without the mentoring, most of the training ECD centre staff attend is not implemented and is therefore wasted.

The Western Cape DSD and the City of Cape Town acknowledge the important role these mentors play. Ways must be explored in which these support organisations, which work at the grassroots, can be better supported financially.

Key findings on other issues affecting ECD centre provision and functionality

Histories

Most of the principals interviewed had either started the centre or worked at the centre since it had started. The most popular reason for starting the centre was the overwhelming need to care for, feed and protect the children. Only one respondent admitted that she saw an ECD centre as an opportunity to make money. This suggests that most centres did not see their purpose as providing a place of stimulation for children, and where a mushrooming of centres occurs it is in response to a need for the service, rather than entrepreneurial interests.

Registration

Centres shared very mixed experiences of getting their NPO registration. A small number had managed to complete the registration process quickly; however, the majority found the process extremely problematic and time-consuming. The NPO directorate was described as reactive, at best.

Centres that meet the norms and standards, and therefore qualify for ECD registration, found that facility and programme registration were far less problematic. However, when centres had to change their ECD registration details, either because of a move or after improvements to their facility, they experienced tremendous delays and bureaucratic barriers.

Management structures

A mix of management structures was reviewed during the research. Some centres had no formal management structures, four fell under umbrella bodies that reported to management boards, and the majority had school governing bodies. In this sample, the centres that reported to management boards that oversaw a range of organisation types (i.e. more than just ECD) complained about poor treatment from their boards; however those that reported to management boards which oversaw ECD centres only were praised. The value of school governing bodies ranged from a negative extreme of being of no value, as the members were illiterate and/or the board was transient, to the positive extreme of the boards helping with fundraising, bookkeeping and submitting proposals to funders. School governing bodies at the wealthier schools were spoken of highly, as they would provide in-kind support and help with fundraising.

1. Introduction

This paper is one of a series developed to inform the scaling up of quality early childhood development (ECD) services to poor and vulnerable children under the age of five. The purpose is to improve the evidence base supporting implementation of government's vision for ECD as set out in the National Integrated Plan (NIP) for ECD and the Expanded Public Works Programme (EPWP) for scaling up integrated services and creating jobs in the ECD sector.

The purpose of this paper is to collect financial information from ECD centres and identify practices that lead to cost savings in the ECD centres. More specifically, it aims to:

- analyse the cost structures in ECD centres and identify a realistic estimate of the cost of providing services;
- present a series of case studies of different cost structures;
- discuss the key issues affecting ECD centres' ability to raise revenue and access government services;
- make recommendations on the above that will lead to the sustainable achievement of the government's vision as set out in the NIP.

The remainder of this section of the paper summarises the research method used in collecting information on cost structures, and provides an overview of the sample of ECD centres involved in the research. Section 2 presents the main results of the applied costings model developed by the authors, in the form of costings for the establishment and running costs for five different types of ECD centre.

Following this, the remaining sections of the paper provide more detailed analysis and discussion of the main ECD centre features and concerns introduced in section 2. Section 3 presents case studies of the five types of ECD centre and tiers of organisational ability referred to in the costings model in section 2. Section 4 discusses detailed findings on the income and expenditure of ECD centres, and identifies significant findings that can guide future support strategies. Section 5 considers other matters that impact on the effective financing and management of ECD centres, including registration requirements and management structures. Section 6 provides detailed information on the policy and legal context of ECD provision in South Africa, and its implications for funding of ECD centres. Section 7 concludes the paper with a set of recommendations for the scaling up and strengthening of ECD 0–4 years provision.

Three appendices provide additional material related to the research project on which this paper reports. Appendix 1 contains a more detailed discussion of the research method used, as well as the questionnaire used in the research. Appendix 2 elaborates on the Excel model for costing ECD provision, and contains guidelines for use of the model by practitioners in the ECD field. Appendix 3 provides a literature review of ECD costing studies, in South Africa and internationally, and relates the findings of these reviews to the present study.

1.1. Research method

Twenty-one ECD centres were visited in the Western Cape. A structured questionnaire was used to capture qualitative and quantitative information about income and expenditure and factors affecting centres' ability to raise income and save costs. Three of these centres served middle- to upper-income families and were therefore not subsidised by government. The remaining centres served communities where a significant proportion of households were poor enough to qualify for Department of Social Development (DSD) subsidies; 12 of these centres were receiving subsidies. Only cost information from these 18 centres was analysed.

All except one of the centres in the sample were selected from a broader profile of centres that have staff attending Early Learning Resource Unit (ELRU) training and/or are connected informally to ELRU. The exception was accessed through another NGO, Yabonga, which provides support for ECD centres.

The reader should bear in mind that the experiences shared below are based on interviews with the principals of these 18 centres, all based within the Western Cape. Therefore the nature of engagements, support and communication with departments applies only to the national NPO directorate, the Western Cape DSD and Department of Education (WCED) and the municipalities of Overberg, Overstrand, Drakenstein and Cape Town Unicity. The support that these departments provide to centres may not apply in other provinces.

In addition to the views of principals, who are seen as experts in their own right, additional expert opinion was sought from organisations that provide support to ECD centres such as Yabonga, the Centre for Early Childhood Development, Ikamva Labantu, the City of Cape Town, the DSD, and Grassroots Trust and Early Learning Services. This input was obtained by means of interviews. Fuller information on the interviews is contained in Appendix 1.

After the first draft of this report was presented to a steering committee in December 2008 The Western Cape Community Chest became aware of the project and provided a database that enable the analysis of financial statements from 149 centres. Salary information from that database is used in this study.

1.2. Sample profile

An overview of the 18 centres in the sample is provided in Table 1. A narrative description of the sample is provided below the table. The questionnaire used is provided in Appendix 1.

Table 1 – Overview of ECD centres covered by the research

Year est.	**Number of children per age group**					**NPO**	**Subsidies**		**Race**		**Average monthly fee**
	< 2	>2	Grade R	Total	% full	44%	72%	33%	African	Coloured	
1993		39	11	50		NPO	DSD		5%	95%	R 30
1993	25	120	120	265	87	NPO	DSD	WCED		100%	R 50
2002		5	6	11		Indirect				100%	R 50
2003		5	6	11	100	Indirect	DSD		75%	25%	R 50
1993		4	1	5					50%	50%	R 54
1953		120	60	180	75	NPO	DSD	WCED	100%		R 58
1997	5	6	8	19		Applying	DSD		100%		R 65
1994		43	30	73	101	NPO	DSD	WCED	100%		R 80
2003		43	24	67	88	Applying	DSD	WCED	100%		R 90
1991	6	48	26	80	106	Applying	DSD		100%		R 110
1996	25	40	60	125	93	NPO	DSD	WCED	80%		R 125
1997	15	35	30	80	84	NPO	DSD		95%		R 150
1988	4	20	20	44	85	NPO	DSD		100%		R 155
1999		6	24	30	50		DSD		3%	97%	R 172
2003		29	16	45	180	Applying			49%	49%	R 238
2000		16	13	29	91					97%	R 250
2000	3	15	12	30	111	CC			7%	80%	R 303
1974	20	84	23	127	91	NPO	DSD	WCED	60%	10%	R 390

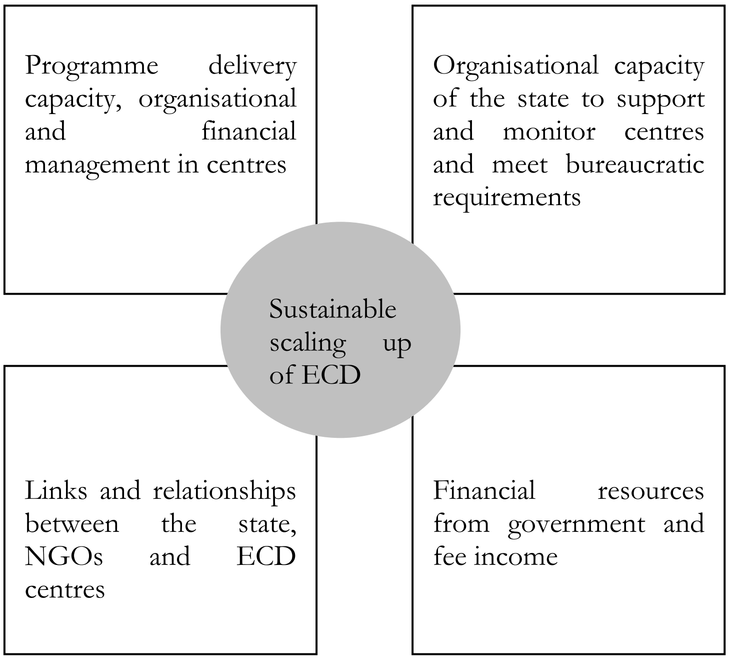
The next section of the paper presents the results produced by the Excel model for calculating establishment and running costs for different types of ECD centre.

2. Cost structures and the costing model

This section uses the costs and prices collected during the research to estimate the financial needs of centres. Figure 1 is inserted here to stress that the sustainable scaling up of quality ECD care relies on a number of interdependent factors, and while costs are presented below they are outcomes of a price × quantity calculation. If the quantities used in the calculations are chosen correctly, they *should* lead to quality care.

Similarly, the prices used in these calculations assume a level of quality of input (especially in the case of salaries). However, this research (and other research currently being performed by a co-author) has found that the price of inputs and the quality of care that results often have no relationship to each other (i.e. a well paid practitioner can use expensive materials and give bad care, whereas a poorly paid practitioner using handmade materials can give very high-quality care). The nature of the service is extremely complex; this complexity is hidden in the simplistic cost estimates presented below.

Figure 1 – The pillars of quality ECD scaling up



Two Excel models were developed to reflect the cost structures and income streams of centres visited. The models were developed to be used as financial planning tools for centres, and could therefore allow planners to model and/or forecast financial needs of the centres.

Full explanations of the models and the assumptions that underpin the forecasts are provided in Appendix 2. The reader should also consider the limitations of costing exercises, as discussed in the literature review in Appendix 3.

Real prices, collected from shops where centres purchase their goods, are used in the model and the costs of food, learning materials and most equipment are calculated on a per child basis. Most of the establishment costs are calculated on estimates of what a group of children of the size costs are calculated for would need, and are therefore chunked. The models were used to produce Tables 2, 3 and 4 in this section. These tables are not discussed in the body of the report; more detail on the assumptions that inform them are provided in Appendix 2.

The reader is strongly advised to assess the cost estimates in the tables in the light of these considerations:

- The degree of variety of findings encountered during the study. The cost assumptions are made explicit; however, the actual costs and the ranges across which these costs vary, as well as factors affecting quality care, are explained in

Appendix 2 and in other reports of the larger project within which this research falls.

- There is no evidence of any link between costs of services and/or resources directed to centres and the quality of care given at the centres.
- The costs are calculated using the highest salaries found. The food and learning materials costs are based on what should be provided to ensure a minimum standard of care, rather than on what is actually provided. This is intentional for two main reasons:
  - Many centres under-pay staff and do not spend as much on learning materials and other running costs as they should, and therefore trying to replicate actual practices is likely to lead to under-estimating the required costs.
  - The costs are made explicit here for the purposes of determining the value of resources that *should* flow to centres to ensure the provision of quality services, rather than maintaining the status quo.

2.1. Running costs

Tables 2 and 3 are summaries of cost estimates produced by the models based on the typological discussions in Section 3 of this paper, and the reader must consider the comments made in the context of the typological descriptions provided: the cost estimates produced are based on a thin slice of the possible combinations of many different types of outputs.

The estimates in the tables assume that all children in the centres are subsidised, and are therefore from poor families that should not be expected to pay fees. In reality, almost all are charged fees, but these fees are seldom over R120 per child per month.

The "shack in the yard" (SITY) typology is not included in the analysis in Table 2 as the running costs for this type of centre are the same as for the Edutainer. The difference between a SITY and an Edutainer in the analysis is that the SITY does not receive any form of income from government and therefore has to make up a shortfall of R474 per month per child. The "Centre" in the table is the typological "Established Centre".

In the interests of providing calculations based on what should in reality be the case, the subsidies are calculated using the following assumptions:

- The DSD subsidy is R9 per child per day, for 22 days per month.
- The DSD after-care subsidy is R5 per child per day, but only for Grade R-age children (it is assumed that all Grade R children will qualify).
- The DoE subsidy is R7 per child for 47 days per quarter.

Two scenarios for staff numbers are presented. The number of staff in each centre meets the minimum children : teacher ratios as per the ECD minimum norms and standards. These salary levels are identified as the lowest salaries that are likely to retain skilled practitioners capable of providing quality care in centres.

Learning material costs reflects the cost of consumable learning materials; this is rounded off to groups of children, rather than per child.

Operating expenses include all other running expenses of the centre and also include maintenance and replacement costs, the details of which can be found in the models.

Food costs are estimated by assuming that all centres provide morning and afternoon snacks, breakfast and lunch. The food model is used for these calculations. This is driven by a per child calculation.

Tables 2.1 through to Table 2.4 detail the underlying assumptions used to arrive at cost estimates. In total four different cost estimates are provided. Three different salary levels are used to calculate the cost implications of two different sets of practitioner to children ratios. Six different permutations are shown in Table 3.

The salaries used here are drawn from a database provided by the Western Cape Community Chest. A more detailed description of this data is provided in section 4.3.2. The cost estimates in Table 3 are based on the salaries shown in Table 2.1. The low salaries are highest salaries of the lowest third (tercile), the middle salaries are the highest salaries of the second tercile and the highest salaries is the highest salaries paid in that sample. These are shown in Table 2.1 below.

Table 2.1 Salaries Paid at Western Cape ECD Centres supported by Community Chest

	Low Salaries	Middle	Highest Salaries
Principal	R 1,416.67	R 2,333.33	R 5,762.33
Administrator	R 1,416.67	R 2,333.33	R 5,762.33
Grade R Teacher	R 1,131.25	R 1,777.83	R 4,279.63
Teachers	R 1,131.25	R 1,777.83	R 4,279.63
Assistant Teachers	R 1,000.00	R 1,305.25	R 3,057.00
Carers (<1)	R 1,000.00	R 1,305.25	R 3,057.00
Assistant Carers	R 793.33	R 1,385.50	R 2,502.50
Cooks	R 800.00	R 1,116.17	R 2,021.50
Cleaners	R 792.00	R 1,100.00	R 1,505.00
Care Keeper	R 793.33	R 1,385.50	R 2,502.50

Section 4.3.2 discusses the salary arrangements in the sample and is able to draw on qualitative findings of the study. However, the Community Chest data base provides a much larger data set of audited financial information and is therefore used in the calculations rather than the information from the sample for reliability reasons. Unfortunately the insights into staff arrangements discussed in Section 4.3.2 could not be achieved by analysing the Community Chest data. In addition, the categories of staff type in the Community Chest database is different to the categories observed in the sample and used in the typologies.

Table 2.2 shows the number of children at each typology used to estimate per child costs. It is assumed that at all centres, all children are subsidised. All the cost estimates are based on the numbers of children and numbers of children subsidised as shown in Table 2.2.

Table 2.2 – Number of Children at each type of centre and subsidies paid

	Edutainer	HBC	Evening Star	Centre
Number of Children per centre	25	65	120	230
0 to 18 months				30
18 months to 3 Years	10	20	30	30
3 to 4	15	20	30	30
4 to 5		25	30	60
Grade R			30	80
Number children receiving DSD Subsidy per centre	25	65	90	150
Number of children receiving DSD After Care Subsidy per centre	No	No	30	80
Number of children receiving DOE Subsidy (for Grade R) per centre	No	No	30	80

Two scenarios for practitioner to children ratios are proposed. Table 2.3 shows ratios as recommended by experts in the sector. The top part of the table shows the children:practitioner ratios and the lower part shows the number of practitioners per category at each type of centre based on these ratios. Table 2.4 repeats this, but using the minimum norms and standards at the time of writing, which was under review.

Table 2.3 Recommended Children to practitioner ratios.

	Edutainer	HBC	Evening Star	Centre
Teachers Ratios (children per practitioner)				
0 to 18 months	6	6	6	6
18 months to 3 Years	12	12	12	12
3 to 4	20	20	20	20
4 to 5	20	20	20	20
Grade R	30	30	30	30
Assistant Carers				
0 to 18 months	6	6	24	30
Assistant Teachers 18 months to 5 Years	0	40	40	40
Grade R - assistants			30	30

Number of Staff at each centre:				
Principal	1	1	1	1
Administrator				1
Grade R Teacher				2
Teachers	1	3	7	8
Assistant Teachers	1	2	3	6
Carers (<1)				5
Assistant Carers				1
Cooks		1	1	1
Cleaners			1	2
Care Keeper			1	1

Table 2.4: Practitioner to children ratios as per Minimum Norms and Standards

	Edutainer	HBC	Evening Star	Centre
Practitioners Ratios				
Children per practitioner				
0 to 18 months	6	6	6	6
18 months to 3 Years	12	12	12	12
3 to 4	20	20	20	20
4 to 5	20	20	20	20
Grade R	30	30	30	30
Staff:				
Principal	1	1	1	1
Administrator				1
Grade R Teacher				2
Teachers	1	3	7	8
Assistant Teachers				1
Carers (<1)				5
Assistant Carers				
Cooks		1	1	1
Cleaners			1	2
Care Keeper			1	1

Table 3 – Comparative Per Child Costs and Monthly Shortfalls

Table 3 below shows the implications of the above input assumptions on the total cost per day and the total shortfall per month per child across the two different staffing scenarios.

Total Cost Per Child Per Day	Edutainer	HBC	Evening Star	Centre
Recommended Ratios				
Low Salaries	R 13.82	R 12.36	R 13.38	R 12.09
Middle Salaries	R 16.66	R 15.01	R 16.25	R 14.14
Highest Salaries	R 27.44	R 25.74	R 27.09	R 22.09
Minimum Norms and Standards				
Low Salaries	R 13.82	R 10.96	R 12.24	R 11.36
Middle Salaries	R 16.66	R 13.18	R 14.76	R 13.30
Highest Salaries	R 27.44	R 21.46	R 23.62	R 18.46
Shortfall Per Child Per Month After Subsidy				
Recommended Ratios				
Low Salaries	R 106	R 74	R 91	R 61
Middle Salaries	R 168	R 132	R 154	R 106
Highest Salaries	R 405	R 368	R 393	R 280
Minimum Norms and Standards				
Low Salaries	R 106	R 43	R 66	R 44
Middle Salaries	R 169	R 92	R 121	R 87
Highest Salaries	R 406	R 274	R 316	R 201

The most critical part of this table is the per child shortfall on the bottom part half of the table. This shows that after receiving the subsidy all centres still have to raise revenue either from fees or donors even when using very low salary levels. Based on these calculations, the lowest amount that must be raised per child from donors and fees is R43 per month (HBC, Low salaries, minimum norms and standards). However that is using very low salaries and therefore the quality of care cannot be expected to be high.

However, a moderate approach that considers the shortfall for the minimum staff ratios and middle salaries shows a monthly shortfall of R87 per month. This is based on salaries levels so low that they are unlikely to retain quality staff and children to staff ratios that are higher than is recommend.

Key to note is that this R 87 has to be raised per month per child to cover operational costs of a centre. If it is not raised, salaries and food are typically the first expenditure items to be cut, which compromises the motivation of staff and the quality of care given as well as the nutrition provided, which is essential for learning.

Key also to notice is that the lowest cost per child per day is R10.96 (using the low salaries and minimum staff ratios at a HBC), which is higher than the current subsidy level. This shortfall has been found in other similar studies.

It is also worthwhile noting that:

- Compared across the two staffing arrangements, the difference in per child cost is larger at the smaller centres than it is at the bigger centres, except for the smallest centre where the ratios do not cause a difference in staffing arrangements.
- In most circumstances the Centre is the cheapest per child. The second cheapest per child the Home Based Centre, which in some circumstances is the cheapest. Although the per child costs at the smallest centre is always the most out of the four typologies, this cost is only marginally more expensive than the Evening Star. This shows, based on this sample, the cost per child does not decrease in a linear fashion from the smallest through to the largest centres.
- The smaller centres are the most expensive to run per child and centres are likely to struggle the most while they are establishing themselves. During these times of struggle they are likely to compromise on inputs that are critical to quality care and should be sought out for support.

Table 4 – Estimated establishment costs

	SITY	Edutainer	HBC	Evening Star	Centre
Number of children	25	25	65	120	230
Learning materials	R 7 850		R 15 701	R 23 551	R 47 102
Internal equipment for children	R 13 300		R 34 652	R 62 061	R 164 418
Storage/shelving	R 3 574		R 8 935	R 14 296	R 28 592
Kitchen equipment	R 8 997	R 8 997	R 11 996	R 24 684	R 29 734
External play and safety	R 6 200	R 6 200	R 6 200	R 30 100	R 52 300
Internal safety	R 720		R 720	R 1 000	R 1 720
Building costs	R 123 750		R 321 750	R 594 000	R 1 138 500
Fully equipped		R 180 000			
Transport		R 30 000			
Ablutions		R 15 000			
Total	R 164 391	R 240 000	R 399 953	R 749 692	R 1 462 366
Per child	R 6 575	R 9 607	R 6 153	R 6 247	R 6 358

Important input assumptions for Table 4 are:

- Learning material costs are based on estimates from Grassroots Educare Trust shop, and the quantity estimates are based on groups of children and therefore rounded up.

- Internal equipment for children includes cutlery and crockery, tables, chairs, cots, mattresses, wash basins etc. This covers equipment used by the children other than toys and equipment used directly in learning.
- The cost of storage and shelving is estimated based on the need to ensure that every child has an individual space to leave their bags and homework.
- Kitchen equipment includes cooking utensils (e.g. pots, serving spoons, knives) and large appliances such as fridges, stoves and freezers.
- External play and safety includes jungle gyms and a strip of fencing at the small centres, and some palisades at the large centres.
- Internal safety includes medical aid kits and fire hydrants.
- The building costs are estimated by multiplying R3 000/m^2 by 1.5 m^2 per child (ECD guidelines) plus 10 per cent for additional space (toilets, kitchen and office). The 'per m^2' cost estimate is based on costs for a centre built during 2008.
- The costs of the Edutainer and its transport were obtained from Bright Kids (who supply Edutainers). The cost of ablutions is based on construction work completed during 2008. The price for Edutainers includes learning materials and equipment for children.

2.2.1 Implications of the establishment costs

Although investments of the magnitude shown in Table 4, if spent correctly, will create an environment conducive to learning and quality care, the centre building itself can in no way guarantee any level of quality service at any of the types of centres. The quality of care depends on the skills levels and attitude of the practitioner giving it.

The estimates in Table 4 are calculated from a zero-starting point, whereas the SITY and the HBC are likely to build on existing houses, with the result that the total cost of establishing these centres is likely to be lower than the estimates in Table 4, especially in the case of the HBC.

There are not likely to be any cost savings in the Table 4 estimates for establishing an Edutainer, and it is interesting to note that in terms of per child cost it is the most expensive option by a significant margin. The advantage of this type of centre is that it can be delivered very quickly, moved easily, and the majority of the investment involved is not spent on improving the value of private property. At a significantly lower cost, a SITY can be upgraded into a centre that will provide a quality environment that will outlast the Edutainer; however, this option is fraught with problems associated with improving the value of private property.

Based on the Table 4 analysis, with the exception of the Edutainers, there appears to be little difference in the per child cost of establishing any of the proposed types of centres, while the smaller centres appear to provide the least-cost 'model' for delivering services. As stressed throughout this section of the paper, the cost estimates presented provide no indication of the quality of care given, and there is a need to perform further research in this regard.

In the next section, we turn to a more detailed presentation of the types of ECD centre referred to in the cost estimates.

3. Case studies and categories of support

Eighteen case studies were done for this study, grouped by five typologies. These are all ECD centres ranging categorised as: "shack in the yard", "home-based centre", "the edutainer", "the evening star" and "the established centre". The centres are categorised on the basis of their link to formal or informal settlements, their organisational ability and their scale. Section 3.1 discusses tiers of organisational capacity in ECD centres. Three dimensions to this capacity are identified. Section 3.2 presents a series of case studies as a set of typologies of ECD centres.

The typologies discussed in Section 3.2 are based on the sample used in this research, but it is recommended that centres be evaluated in terms of their position on the tiers of organisational capacity described in Section 3.1, which have been adapted from Argue (2008), and that support be given to them to enable them to move as far along the tiers as possible.

3.1. Tiers of organisational ability

Three separate measures of organisational ability are described below. These descriptions do not include any measure of the quality of care given by a centre. Instead they focus on basic organisational capacities that ensure that systems are in place to enable an organisation to be held to account for any financial support it receives, which is critical. Building these capacities in the centres also ensures, with very few exceptions, that they are able to access sources of finance (e.g. donor funds and capital funds) that can be used for capital improvements that government cannot provide.

In each category, four levels of capacity are described, from worst to most desirable. In all cases the first two levels are sustainable, and all centres should be supported to get to at least level three for *all* categories.

3.1.1 Financial management capacity

1. **No noticeable system in place**: The principal does not really know what she spends or earns and manages her finances 'by feel'. She has no understanding of the benefit of good financial management. Most such principals are scared of financial transparency, and are survivalist rather than strategic.

   Key indicator: not capable of producing any financial records.

2. **Basic systems in place**: The principal understands her global limitations but is not capable of producing timely information. She is also yet to appreciate the benefits of transparency. Bookkeeping is usually outsourced to a frustrated accountant who has to advise the principal to practise constraint. She can't produce last year's financial statements because she can't remember where she filed them. She understands that she needs to be more than survivalist, but can't organise herself to move out of the survivalist mode.

Key indicator: prepares financial statements, but can't find them.

3. **Working systems in place**: The principal has either received training or run the centre long enough to understand that transparency is beneficial. She can produce last year's financial statements and most financial information that a prospective donor would want to see immediately. The actual bookkeeping is outsourced to either a paid accountant or a member of the school governing body (SGB), and the principal (or someone in-house) has a decent filing system in place for invoices. An annual report is prepared and is likely to be informative. The principal has a basic strategy in place, even if it consists only of perpetuation of whatever methods have got her to where she is.

   Key indicator: financial statements available in a file on site which also contains monthly reconciliation as recent as two months prior to visit.

4. **Fully functional system in place**: Monthly bookkeeping is done in-house by the principal or a full-time administrator at the larger centres. The reconciliation of the previous week's expenditure can be shown on request, as can the previous month's reconciliation. This is an accountant's and auditor's dream. Useful annual reports are available and are published widely. Clear visions and strategies exist, which are reviewed frequently.

   Key indicator: financial statements and the previous week's reconciliation immediately available.

Levels 1 and 2 should not be tolerated. Level 1 centres need training and mentoring, level 2 centres need more mentoring than training, and whether or not they reach level three depends on their will to improve. Level 3 is on the other side of a threshold where new opportunities open up.

3.1.2 Management structures

1. **No structures on record or apparent**: The principal is the central key-holder and is not accountable to anyone else. Staff are unlikely to have a written contract and are unable to bargain for improvements.

   Key indicator: no management system in place.

2. **Has structures on paper but not functional**: An SGB exists on paper, but is transient and does not play a role of any value. The principal cannot produce any minutes of the previous meeting. Staff are likely to have some form of written contract.

   Key indicator: SGB exists on paper, but minutes of meetings cannot be produced.

3. **Structures in place and SGB meets frequently**: An SGB exists and meets regularly as per a written schedule. The SGB helps the principal to enforce payment and is likely to assist with bookkeeping. Staff have written contracts and job descriptions.

   Key indicator: SGB can produce minutes of meetings.

4. **Explicit structures in place**: The SGB meets regularly and some members play a very active role in supporting the principal in various ways. Sub-committees within the SGB are able to write proposals and are active in successful fundraising drives. Staff have detailed contracts and job descriptions and there is an explicit staff development plan.

   Key indicator: SGB's support in fundraising initiatives.

As in the case of financial management levels, levels 1 and 2 here should not be tolerated. A way out of this involves giving management training to the principal and basic training to the SGB on its role, which is complex as the more problematic SGBs are more transient. The jump from level 2 to 3 is a large one. Level 3 SGBs are likely to respond positively to training and make the effort worthwhile. The threshold described under financial management capacity above does not exist for this aspect of capacity.

3.1.3 Registration

1. **Vague understanding, no progress**: Some centres at this level do not even know that a registration process (NPO or departmental) exists. Most are aware of the process but can't be bothered as they have no desire to formalise their activities.

   Key indicator: cannot demonstrate any effort made to register.

2. **Have taken first steps**: The centre will have drafted a constitution and completed an application form, but both are so badly done that there is no chance of registration. According to the principal, office-bearers have been appointed, but there is no evidence of this. She may have applied to the departments for visits, as a result of a social worker visiting the centre.

   Key indicator: can show that an effort has been made, but with no outcomes.

3. **Registration in place**: The principal has been helped by a social worker and/or NGO to apply for NPO registration. The constitution is complete, office-bearers have been appointed and an application form has been properly completed. The centre has been assessed by the departments and is likely to get, or does have, an NPO number. It is considering registering as a PBO.

   Key indicator: evidence of application and/or registration as an NPO.

4. **All requirements complied with**: The centre is most likely to have been helped by various bodies, and has NPO registration and registration they deserve from government; it has also registered as a PBO with the South African Revenue Service (SARS).

   Key indicator: PBO and NPO registration.

NPO and PBO registration are used as key indicators, rather than departmental registration because there is more immediate support available to help organisations register as an NPO. A centre that cannot meet health clearance standards has no formal mechanisms to access resources to meet the standards; however formal mechanisms do exist for them to get NPO registration and these can be followed, whereas accessing donor resources without NPO registration is more random. In addition, NPO registration often enables a centre to access funding that they can use to improve their facility to meet health clearance standards. There are centres loitering around at level one that are problematic, and the outcome of support given to them is uncertain; however, attempts must be made to bring them into the mainstream because they pose a risk to children. Level 2 centres are likely to require substantial support and mentoring to get them through to level 3. The difference between level 3 and 4 is the small process of PBO registration with SARS.

3.1.4 Summary of tiers of organisational ability

The skills involved at each tier, for each criterion, can be summarised as follows:

Criterion one – Financial management capacity:

	Basic description	*Indicator*
Tier 1	No noticeable systems in place	Not capable of producing financial statements
Tier 2	Basic systems in place	Claims to or does prepare financial statements but cannot find them
Tier 3	Working systems in place	Financial statements available in a file on site which also has monthly reconciliation as recent as two months prior to visit
Tier 4	Fully functional system in place	Financial statements and previous week's reconciliation immediately available

Criterion two – Management structures:

	Basic description	*Indicator*
Tier 1	No structures on record or apparent	No management system in place
Tier 2	Has structures on paper but not functional	SGB exists on paper, but minutes of meetings cannot be produced
Tier 3	Structures in place and SGB meets frequently	SGB can produce minutes of meetings
Tier 4	Explicit structures in place	SGB's support in fundraising initiatives

Criterion three – Registration:

	Basic description	*Indicator*
Tier 1	Vague understanding, no progress	Cannot demonstrate any effort made to register
Tier 2	Have taken first steps	Can show an effort has been made, but no outcomes
Tier 3	Registration in place	Evidence of application and/or registration as an NPO
Tier 4	All requirements complied with	PBO and NPO registration

From a cost management perspective, centres should be evaluated on each criterion and be given support to reach at least tier three for all criteria, as once they are at level three for all criteria they are likely to be self-sustaining.

3.2. Proposed typology of ECD centres

Five types of ECD centre are presented below. In reality there is a continuum of centres to which a continuum of issues applies; the typological approach is used because:

- It enables the development of the two costing models needed for this project. The first model has been designed to fit the description of the first three types of centre; the second is designed to match the description of the fourth and fifth types.
- Using a typology facilitates an easy presentation of the issues at hand.

Only centres that do and could qualify for subsidies, based on the household income of the children at the centres, are included in the descriptions (i.e. centres in wealthy communities are not described below). The types (categories) of centre in the typology are named as follows:

- The Shack in the Yard (SITY)
- The Home-Based Centre
- The Edutainer
- The Evening Star
- The Established Centre

As a group, they are distinguished as "ECD centres" and not as "home based ECD". This may appear confusing, especially in the case of the 'home based centre' which is a service located in a home, but much more substantial than what would typically be seen as home based care which generally refer to the children being taken care of in their own home, by their usual guardian or care giver.

Not all centres fit any of these descriptions perfectly. However, all centres in a particular category should be sufficiently similar for the strategic objectives discussed below to be relevant to them. In all of these types, the majority (over 70 per cent) of children attending will qualify for the child support grant (CSG) and the DSD subsidy. Note that no centre operating from a prefabricated building or classroom was visited; such centres most likely fit the HBC description.

The following case studies of centre types, and descriptions of the support required in each case, are based on the assumption that the process of rapidly scaling up ECD will aim to ensure that all centres providing care for children are brought into government's system of support, and the understanding that only 16–20 per cent of children targeted by the NIP will be cared for in centres (Biersteker & Streak, 2008).

It is also implied that no centre should receive financial support from any sphere of government unless it has NPO registration, a requirement to which there should be no exceptions. However, it is also assumed that the state will ensure that the capacity of the state to register NPOs is dramatically scaled up. This point is discussed in the concluding section of this paper.

3.2.1 The Shack in the Yard (SITY)

This category of centre is a small operation, generally operating out of one room. At most centres, the principal is an entrepreneur who owns the property and saw a pressing need for the service in the community as an opportunity to earn an income. Their primary motive is to look after and feed children who would otherwise most probably be neglected during the day. Early stimulation is not a priority; the main priority is giving children food and a safe place that they would otherwise not have. It is not unfair to describe these centres as survivalist, and lacking the immediate organisational skills required to grow; but with support most of them have the potential to grow. Out of all the types of centre they are the most likely to waive fees, and are the least able to get parents to pay in kind. They tend to take in substantially more children than they would be registered for.

Due to their size and location, many of them are invisible to government and most will complain that "government does not come down to our level". Unless connected to a community ECD forum, they do not have a good sense of what support they are entitled to from government, or how to get it. Without these networks they also have limited understanding and appreciation of the benefits of NPO registration and following good bookkeeping practices. Almost all these centres have only two staff members, including the principal, and share all responsibilities of running the centre between them.

The stock complaint from these centres is that they are caught in a chicken-and-egg situation with regard to registration. They operate from facilities that are sub-standard and do not deserve health clearance, yet if they were subsidised they could raise funds to improve the quality of their facility. A few are able to raise money to improve the physical condition of the centre and obtain health clearance, but many of them struggle to break out of this trap and eventually close down after months or years of providing sub-standard care.

An unfortunate reality facing these centres is that they do not have the space to serve more children than they currently take in. Many of them operate from small houses, and therefore expansion beyond a limit of about 30 children involves expensive alterations or adding additional floors to the house, which they are unlikely to be able to finance without the support of donors.

From a social development perspective, the focus on these centres must be on getting them into the system and supporting them so that they can comply with existing requirements. The amount of help they require to do this varies, but most of the help is energy consuming hand-holding and mentoring to complete the bureaucratic processes involved. If someone is to be given responsibility for the care of twenty-odd children and subsidised from the public purse for doing so, they should be able to manage the administrative side of the centre sufficiently well to meet these requirements. Most of the people running these centres do not appreciate the importance of these basic processes, *nor their immense value*, and a lack of management capacity is often the biggest barrier between where they are now and a sustainable operation.

These centres need support to meet minimum health clearance standards and obtain NPO registration, which can happen simultaneously. Immediate attention must be paid to putting management systems in place (especially financial management). Once NPO registration is obtained they can use that registration to access funds from donors that can be used to improve physical condition of the centre. Community development workers, social workers and health inspectors can be extremely helpful by explaining the registration process and walking the centre staff through the application process. While they are applying for registration, they should be encouraged to participate in ECD fora and attend meetings and workshops arranged by the departments and local government. They usually benefit directly from learning at these events and connecting with other people in the networks, and get put on lists of centres that receive learning equipment donated by government on an ad hoc basis. The informal links they establish in the networks often result in access to donors.

Support must be provided to these centres in a staggered manner, and they must be rewarded in small increments as they demonstrate the ability to spend money as stipulated in proposals that they or agencies helping them have used to apply for funding. Getting them into a position where they can prove they can manage a centre and the finances properly, and then produce a track record of this, usually gains them access to donor funding and other support that can take them to another level. The learning involved in the processes described above is one that they will benefit from.

As centres of care, unless they have the space to expand, they can provide quality care to only a limited number of children. At an absolute maximum they should be seen as a means to serve 25 children and as feeders for Grade R classes in other centres and/or schools, but not as places of care for Grade Rs. The availability of space varies considerably within the Western Cape, and in some provinces space will seldom be the constraining factor; however, in densely populated communities it is a severe constraint that can seldom be worked around. It is critical that these centres do not overcrowd their facilities as this usually means that children spend their days in small enclosed spaces that are a threat to their health and do not stimulate development.

No financial statements were obtained from any of the centres in the research sample that can be described as SITYs, and the following analysis was taken from a cash flow projection of a centre that is definitely a SITY. The principal cautioned that the costs were under-estimated and the revenue over-estimated. The forecast was printed in a table with monthly details for each item given in the figures below the table, and many of the annual totals shown in the table did not correspond with the monthly figures. That a principal makes such a mistake is worrying; she was assisted by a donor in the drawing up of this forecast, which is even more worrying. The forecast also estimated a substantial shortfall as income equalled only 33 per cent of total expenditure.

Figures 2 and 3 show income and expenditure analysis for a SITY.

Unfortunately no assurance can be given on the accuracy of the amounts in Figure 3; it is likely that salaries were the largest expenditure item, but not as significant as the figure suggests.

Limited accurate costs of upgrading these centres were available, but using anecdotal evidence one can say that most of them need to spend about R20 000 on capital improvements to the area where care is provided (fixing the flooring and ceilings), and proper ablutions with flush toilets, concrete floors and basins with tin walls and roofing can be constructed for R15 000. Fencing, which a minority of the centres will require, costs R500/m in the Western Cape. Additional establishment costs for 30 children will be as follows:

- Learning materials: R7 800
- Furniture for the children (mattresses, tables, chairs):R13 400
- External play equipment and safety: R6 200
- Storage and shelving: R3 500

These centres are likely to already have kitchen equipment they can use.

Although not the most ideal solution, a move from a SITY to an Edutainer (see next sub-section) is a positive one. Bright Kids (www.brightkids.co.za) provides a fully furnished and kitted Edutainer for R180 000. Transport costs to the furthest point from their headquarters in South Africa will be R30 000 at most. In addition to these costs, the centre will need to invest in ablutions and external play equipment to the same value as mentioned above for the SITY.

Figure 2 – Income analysis of the Shack in the Yard

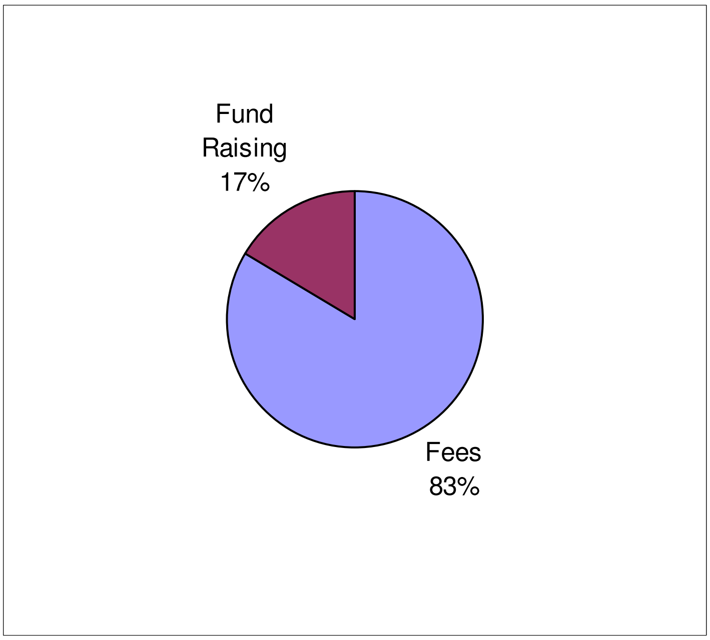
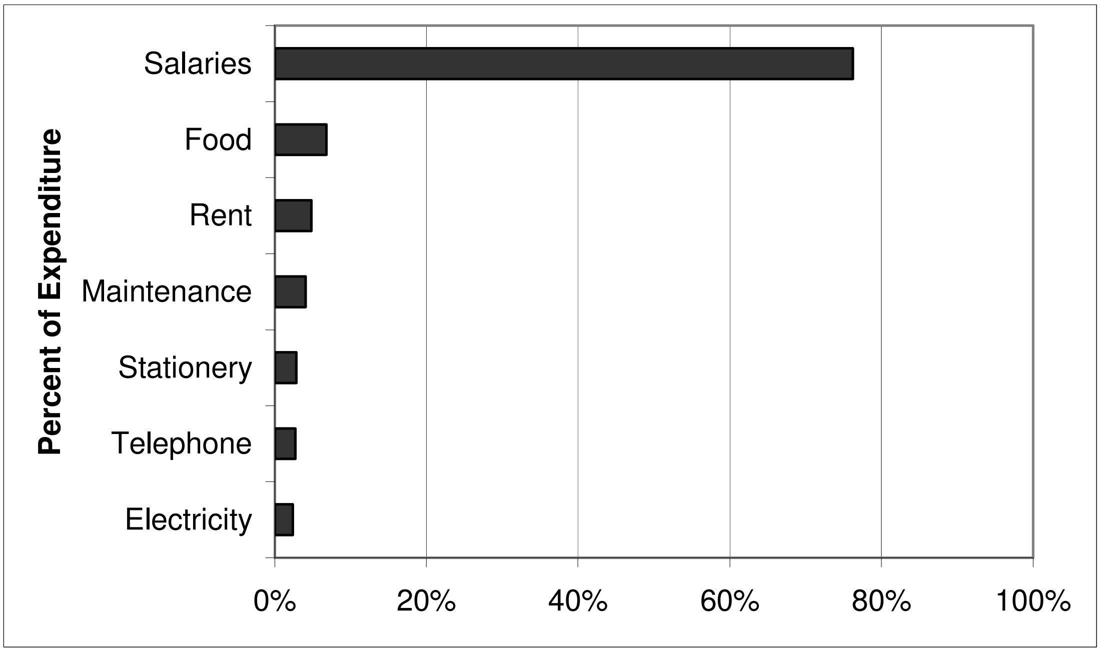


Figure 3 – Expenditure analysis of the Shack in the Yard



3.2.2 The Edutainers

Edutainers are shipping containers that have been converted into long narrow classrooms. Some of the conversions have produced comfortable facilities that are suitable as an interim measure; however, some have been badly maintained and can hardly be described as suitable. Edutainers in reasonable condition are able to receive health clearance. The largest Edutainers are 12 m in length, and can accommodate 25 children. Some centres have two Edutainers side-by-side and can serve double this number. Ablutions have to be provided on the site; most use potties and the toilet of a house on the property they rent from.

All Edutainers visited in this study were donated to the centres, which rented the sites they worked from. The principal of the Edutainer has typically been "found" by a donor who wants to help, and therefore the Edutainer is a way in which they can step away from being home-based. They have the experience of achieving NPO and other registration, and are therefore in the system and accessing government support. Most of these centres worked with SGBs that did not have the capacity to understand the role of a SGB. Their clients and their approach to managing payment of fees were similar to those of the SITY.

A benefit of Edutainers is that they can be moved easily to and away from an area that has sufficient space, which ensures that none of the usual delays associated with approving building plans are involved. Once the brick structure is ready for use the Edutainer can either be moved to another centre or be used as a place for children still on nappies, an office, library and/or cooking area in the original place of operation, and can serve these functions on a long-term basis.

These centres are in the system and are usually accommodating as many children as they should, if not more. The number of children attending ranged from 18 to 80 and therefore the staff component at some centres consisted of only a principal and an assistant, whereas the largest Edutainer had three dedicated teachers, a dedicated cook and a part-time care keeper. Most of the staff are in or have been through training, and therefore the quality of care should be relatively high, but this is not always the case.

A risk with Edutainers is that they are logistically easy to manage appear acceptable as long term solutions. Edutainers offer a very workable alternative to the majority of SITYs, but must be seen as an interim measure to be used while the centre establishes itself properly. The focus on the principal must on be continued development of her and her staff's abilities to care for children, as some care for many children. The principal most probably needs training in financial management, and some pressure, through mentoring, is required to motivate her to raise funds to build a brick structure that becomes the primary area of instruction.

The data used in Figures 4 and 5 are taken from an audited financial statement of an Edutainer for the year ending March 2007.[1] Unfortunately the analysis in these figures cannot be compared to

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[1] This centre was the one exception in the sample that admitted she started her centre because she saw an opportunity to earn an income. This was discovered after the site visits, through a discussion with a NPO that

other centres that are similar in nature, and therefore it is not clear if all earn such a high percentage of their income from fees. As can be expected, salaries and food account for the majority of expenses at the centre.

Figure 4 – Income analysis of an Edutainer

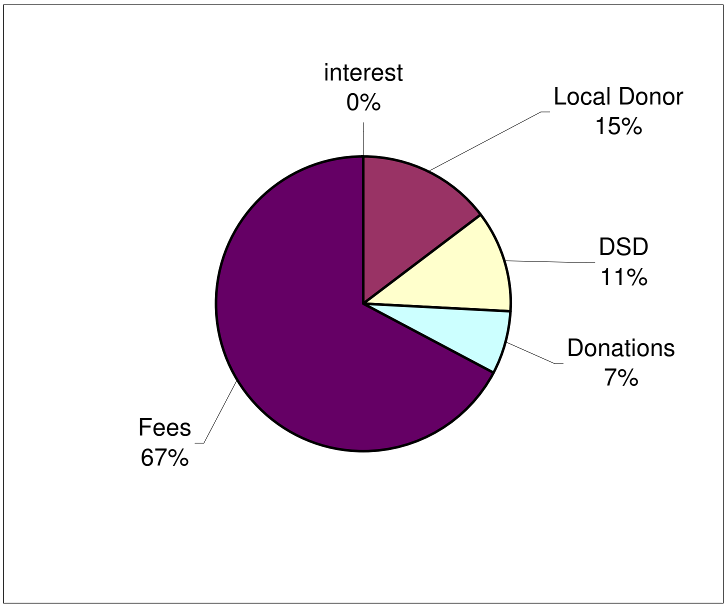
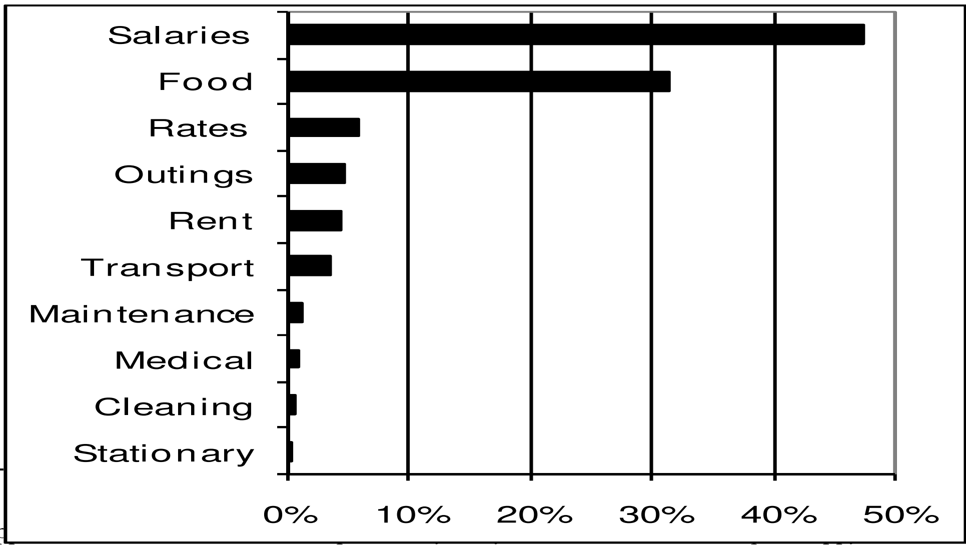


Figure 1 - Expenditure analysis of an Edutainer



sup … e running it in its existing derelict state as a money-making operation rather than as a place of care for children.

The most desirable next step for an Edutainer is a step up to a HBC or an Evening Star. An estimated building price of R3 000/m² is reasonable, and therefore these centres will need to raise R360 000 to build classroom space for 60 children, assuming the Edutainer is converted into an office and kitchen. That is a reasonable estimate of the minimum low-end capital needs to take an Edutainer to a HBC stage. To take an Edutainer to an Evening Star stage will cost at least R600 000 for the building, based on building work done during the first half of 2008, according to the South African Environment and Education Project (SAEP). For 60 children, additional establishment costs are as follows:

- Learning materials: R15 000
- Furniture for the children (mattresses, tables, chairs): R29 000
- External play equipment and safety: R11 200
- Storage and shelving: R7 148

3.2.2 The Home-Based Centre (HBC)

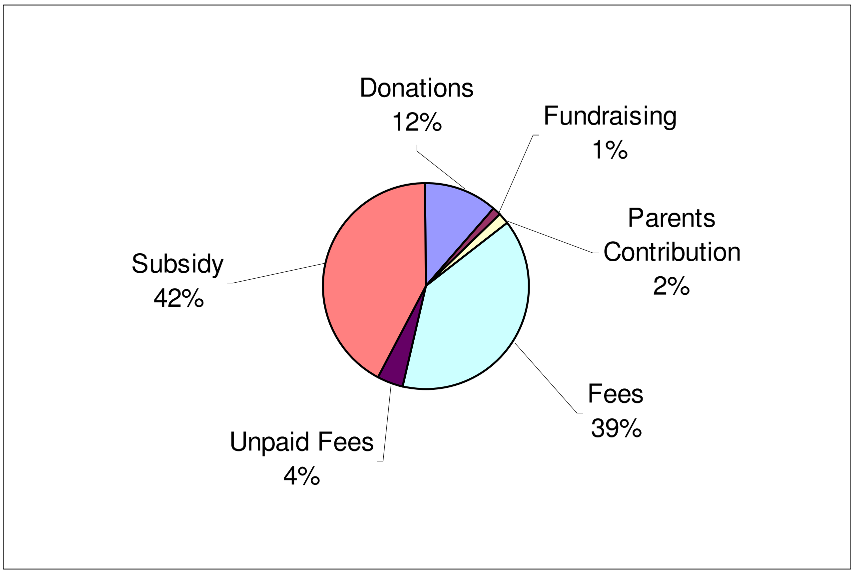
The progression of a SITY into a HBC is a natural one, and the defining differences between them are that a HBC is registered, deserves to be registered and has been receiving subsidies for a few years. As they have been "in the system" for some time, most HBCs are providing an acceptable quality of care. The size of these centres varies between serving 30 and 70 children, with most providing care to between 50 and 70 children. They started receiving subsidies before it was a requirement to be registered as an NPO and many are in the middle of the process of NPO registration. There are many centres that fit this category which exceed their health clearance limits, and this needs to be monitored and principals continually advised on the detrimental effects of overcrowding. Most of the centres are run by the person who started it as a SITY, and a significant proportion are inherited from a mother who has since passed away.

Most of the principals are in training and/or have had previous training. The larger centres usually have four teachers, including the principal and an assistant teacher. The staff take responsibility for all the cleaning and some centres also have cooks, but this role is often performed by a teacher. The principal or a member of her family lives on the site.

The principals of these centres understand the government systems in place sufficiently well to get what they need out of them. They either do all the bookkeeping themselves or have help, either from the SGB or a hired accountant, to do the bookkeeping and keep them informed of their cash position. They have learnt the importance of financial control and reporting, and have the systems in place to ensure that these are functioning effectively. Many of them have a SGB with which they can work well and of which they speak highly, although this varies. Many of the children in attendance are siblings or nephews and nieces of children who previously attended, and are there because of the reputation of the centre. They have been operating in the community long enough to be part of important networks, both formal and informal, and are known by the community.

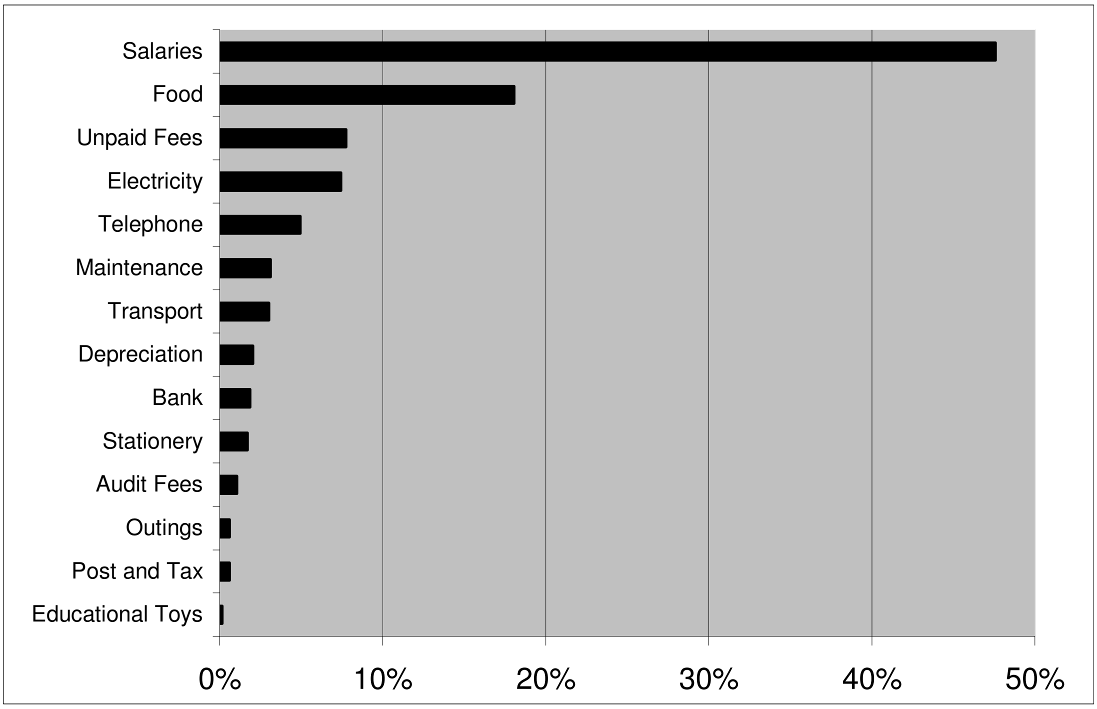
In the present research sample, none of the HBCs visited could speak of any significant ongoing donor funding they received. The principals knew of or had received some kind of donor support in the past, but did not get this on an ongoing basis. They felt that because they were home-based, donors were hesitant to provide support.

Figure 6 – Income analysis of the Home-Based Centre, 2006



Notes: Parents contribution is money collected from parents once a quarter in addition to their fees.

Figure 7 – Expenditure analysis of the Home-Based Centre, 2007



This sort of centre is not looking to grow the number of children it has, but needs to find ways of increasing its income as it is just making enough to survive; many HBCs are gliding along. Most fear pushing up fees as this drives down the number of children; from government's perspective they make an important contribution to the number of children given care and therefore deserve continued support (and monitoring) from government as they currently receive it. Most need to be encouraged to pay their staff better salaries to keep the skills they have developed within the centre. Currently they cannot apply for WCED subsidies for Grade Rs, which is reasonable as many do not have separate Grade R classes. They should therefore be encouraged to feed children into Grade R classes rather than provide these classes. Additional help, in the form of free meals and learning materials, would make a substantial difference to their operations and government should help them receive such support.

As in the case of Evening Stars (described below), they are important sources of knowledge about their community and some (but not all) of these principals can mentor SITYs through their registration. Continued training of staff is essential, as is monitoring of the quality of care provided. They are likely to continue surviving from existing subsidy arrangements. They should be encouraged and/or given additional training to help them access donor funds to make improvements to their properties.

The analyses of income and expenditure for HBCs in Figures 6 and 7 are drawn from the same centre, but for different years. The most recent financial statements available (2007) show that no income was raised from donations or from parents' contributions, yet these amounts had been significant in the previous year.

This centre cared for a similar number of children to the Edutainer yet, in relative terms, a significantly larger proportion of its income came from subsidies. In absolute terms the income from fees at these two centres was similar and this shows the direct financial benefits of having large spaces that meet health clearance standards.

3.2.4 The Evening Star

These centres are described as Evening Stars as they are usually very nice and well kept buildings that stand out from a sea of shacks. They all start as SITYs and then grow into a HBC, which is usually when they are spotted by a generous donor or donors who provide the significant resource required to build the centre. With exceptions, they do not take in more children than they should. The principals are mostly strong people and apparently good leaders who generally live in a separate building on the site, with their own families. The better run centres can provide a wealth of knowledge on how to run a community-based operation of this kind and deal with the softer dimensions of the process, especially with respect to handling their community. Government should aim to make greater use of this knowledge than they do at the moment. Most of them have got to where they are now with limited help from government besides grants and subsidies. They meet all the standards required for registration, including a registered and subsidised Grade R class.

The principal is a strong enough leader to make the relationship she has with the SGB a constructive one. They generally have to explain the purpose of the SGB and its role to the members, and most are able to make their relationship with the SGB a constructive one. That the principals have an ability to manage and do their own bookkeeping proficiently is almost tangential, and the bulk of this work is often undertaken by a member of the SGB. They understand the systems in place and want a more collaborative relationship with government to make the systems work as intended.

Figure 8 – Income analysis of an Evening Star

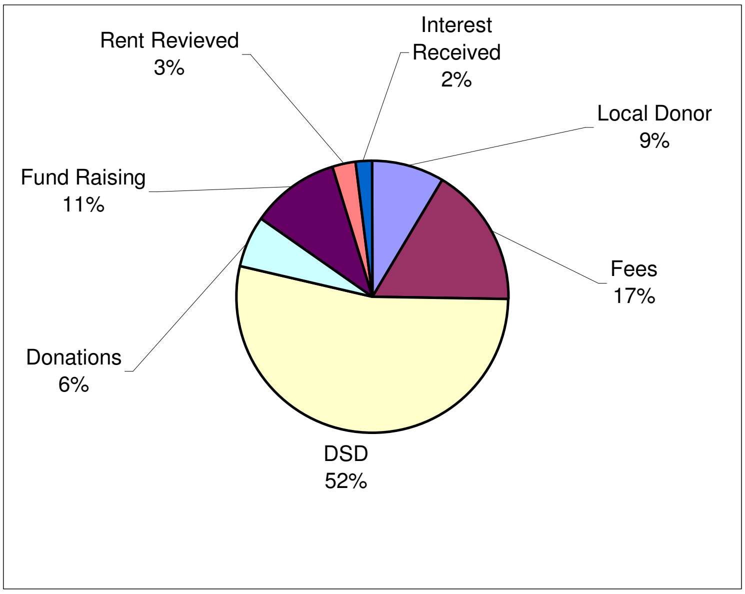
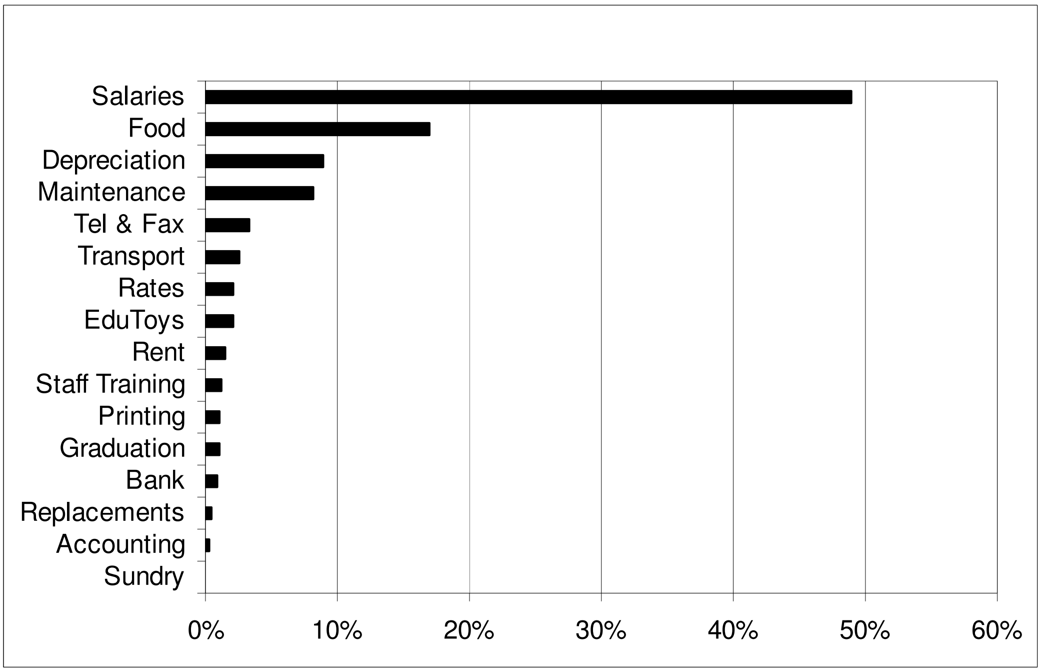


Figure 9 – Expenditure analysis of an Evening Star



These centres range in size between 70 and 130 children; they have 3 or 4 separate classes with dedicated practitioners in each and assistant teachers who float across the classes. They have a full-time cook who doubles as a cleaner. It is not unusual for the cook to be at the start of a career in ECD, which is an opportunity for skills development that government should promote. They should feature prominently in government's ECD strategy. The focus with regard to these centres must be on a continuation of subsidies that they are entitled to and, critically, listening to them and using their knowledge to inform strategy and development in this sector (provision of ECD to the poor).

Figures 8 and 9 provide an analysis of the income and expenditure statement for the year ending March 2007, the most recent available at the time of research, of one of the Evening Stars in the study is presented below:

During the year since March 2007, this centre was registered with the WCED and had started receiving a subsidy, erratically, from the department. The "local donor" is a South African-based donor agency, the 'donations' are from a foreign donor. It is worth noting the following:

- The centre is extremely reliant on income from government subsidies, with slightly over half of its income coming from government. As a proportion of total income, government subsidies have most likely increased since the above financial statements were prepared as they have since received WCED subsidies as well.
- Fee income was only slightly higher than total donations received.
- Sixty-six per cent of expenditure for the year was spent on food and salaries, this at a time before recent food inflation.

3.2.5 The Established Centre

In this research, three centres that can be described as Established Centres were visited. The building of one of these centres was financed by foreign donations, facilitated by a local NGO, and once built the NGO appointed a principal whom they met through word of mouth, where the word spread from mouth to ear on a training programme. The current principal is given ongoing mentoring and financial support from the NGO and the centre is registered for 76 children. The second centre was built in the 1950s by a church. The principal of that centre reports to a management board within the church but the centre operates as an independent entity and is able to cover all costs through donations that the principal raises herself, fee revenue and government income. This centre is registered for 240 children, but takes only 180. The third centre is described below; however, the recommendations apply to all three centres. All three centres are subsidised by both the DSD and the WCED.

The third centre served over 200 children although it was registered to serve 100 children fewer, this because it had been waiting for 18 months for the DSD to upgrade its registration. According to the principal, they had space to accommodate 40 more children than they had at the time of the interview.

Figure 10 – Income analysis of an Established Centre

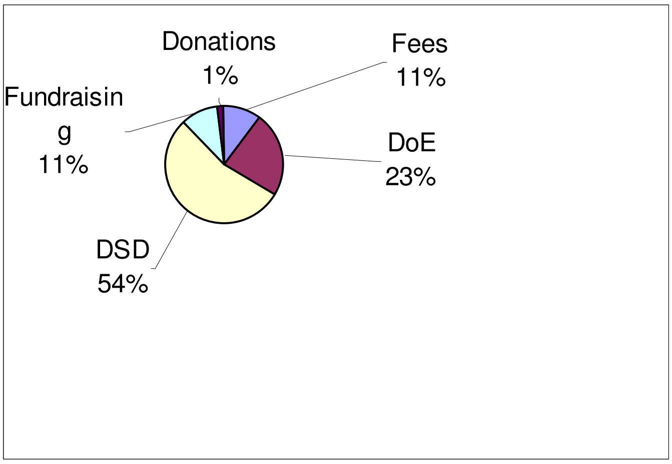
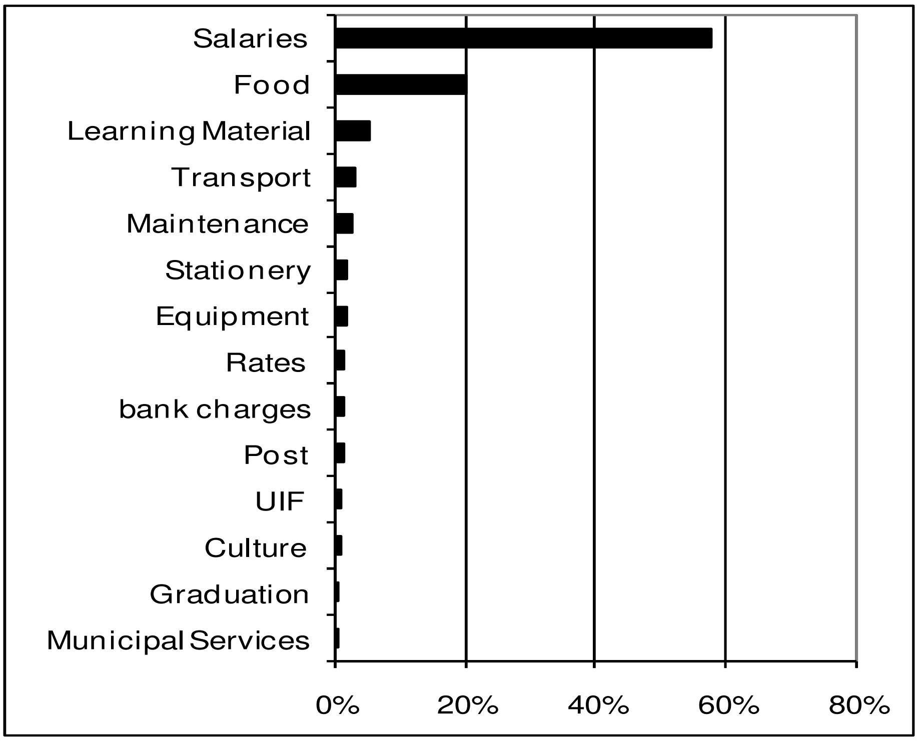


Figure 11 – Expenditure analysis of an Established Centre



The principal was another example of an obviously strong leader and the interview was hosted in the administration office, the walls of which were covered with shelves containing files that could be accessed to provide any details about the centre. She had been part of the initial group of women from the community who had started the centre to "show parents how to care for children". It was first started in someone's house, but has expanded since and was moved into the current facility, which is a municipal building, in 2003. Over 200 children, from birth to 6 years, and 9 staff, share 2 toilets and 20 potties, an indication of how desperately the physical state of the centre needs to be improved.

The principal was able to reflect on strong relationships she had with various fora in the community and we were frequently reminded that the centre is under pressure from the community to look after as many children as they can, even if they can't pay any fees. These relationships were leveraged once a quarter during fundraising events and ensured that they were successful, as is shown in the analysis below.

This centre had the largest staff component in the sample, but also had the highest children-to-practitioner ratio. The principal was one of eight teachers and the staff also included a full-time administrator, cook and cleaner. The cleaner helped with cooking. All teachers at the school were attending training. They operate in an area where the majority of parents work as contract workers and therefore their revenue from fees drops by as much as 60 per cent during the 'off' season. The combination of this variable income and the gap between the number of children they are subsidised to serve and the number they do serve, is clearly placing strain on their ability to hire more staff. They are confused and unhappy with the way in which they are treated by the WCED and feel this department should pay their Grade R teacher salaries, recognise the qualifications these teachers have and upgrade the status of the centre.

They were the only centre to speak of a relationship through which their teachers would visit a European country for three weeks of the year on a teacher exchange programme, and it is not clear why this centre did not raise more income than it did through donations. This may be because they rented their premises, but this is not clear.

The principal was able to share more examples of support the centre received from the municipality than she could offer in regard to the help she received from either the DSD or the WCED. This is worrying, as the centre serves a large number of children.

Considering the large number of children this centre serves, government should be working closely with them and providing substantial in-kind support. The analysis in Figures 10 and 11 shows that the majority of their income came from the above departments, and a far greater return could be achieved from this money if the departments helped them access the full number of subsidies they were entitled to as this money could be used to upgrade the facility and employ more staff.

The analysis shown in Figures 10 and 11 was performed on the centre's income and expenditure statement for the year ending March 2007. The expenditure analysis in Figure 11 excludes training, audit costs, sundries, consumables, cleaning materials and depreciation as these were all less than one per cent of total expenditure. The financial statements show that in 2006, similar income was raised through fundraising and therefore this is a regular source of income and not a once-off phenomenon. Similar comments to those for previous analyses can be made:

- Income from government subsidies constitutes 77 per cent of the centre's total revenue.
- Income from fundraising is the same as revenue from fees.
- Salaries and food constitute 78 per cent of expenses; the next-biggest single item is learning materials at 5 per cent.

Note that at the two centres receiving subsidies from both the WCED and the DSD, the percentage of total income that subsidies comprise is considerably larger than is the case in the previous types of centres discussed.

Table 5 – Summary of ECD Centre Typologies

Type of centre	Description	Priorities	Training and mentoring required	Risks/ opportunities	Estimated costs
Shack in the Yard	Small operation run in the back yard of a shack or RDP house in a badly constructed building, Wendy-house or shack. Physical condition of facility does not meet registration standards and therefore centre is not receiving subsidy. Is survivalist in the sense that ends are just met and needs external financial and managerial support.	Improve the physical condition of the facility to meet minimum registration standards, invest in structuring the organisation of the ECD centre to go through NPO registration and training. Get them to the level of a 'Home-Based Centre'.	Any training will be welcomed. Training should be on the ECD levels. Mentoring and hand-holding required to walk them through registration.	Greatest risk is that they remain outside the system and children continue receiving care in a facility that is detrimental to their development. There are risks that support comes to nothing as the principal is unable to sustain the centre. Provides relatively cost-effective mechanism for 20–30 children, maximum.	Will vary substantially and space is a major factor. Most will need R20 000 to make improvements to area of instruction, given incrementally. For 30 children another R30 000 is required for equipment; some will need improvements to ablutions which can be provided for R15 000.
Edutainers	There is major variation in these. Some are run from only converted containers and some use the containers as additional classroom space. Physical conditions vary. Containers invariably donated and often operating on a rented site. Principal has often moved into container from a shack and needs to be trained to manage the centre properly. Is a good temporary measure. 12 m shipping containers are suitable for 25 children.	Edutainer must be short-term measure and focus is therefore on building a purpose-built centre that children can move into. Can become HBCs or Evening Stars. During this time focus must be on building capacity of principal to delivery quality care.	Training most likely to be similar to that for SITYs, except these generally have NPO and Educare registration. Mentoring always beneficial.	There is a risk that this sub-acceptable level is tolerated and impression is created that it is acceptable. Containers can be moved easily or converted into offices, so capital investment is not lost. Most are registered so provide opportunity to build a centre for 30 up to 130 children that will be in the system when it opens.	On an ongoing basis most receive DSD subsidies. To get from Edutainer to HBC or Evening Star costs are R3 000m^2 – assuming Edutainer used once new structure built, budget for 60 children will be at least R360 000 for instruction area. An additional R63 000 required for equipment.

Type of centre	Description	Priorities	Training and mentoring required	Risks/ opportunities	Estimated costs
Home-Based Centre	Has been operating for over five years and is in the system. Most facilities are adequate and range in size from 30 to 70 children. Principal is usually sufficiently competent to run a centre of this size well, but should not be expected to expand. Space is often a limiting factor anyway.	Top priority is to focus on quality of care and bringing all practitioners into training. The physical condition of the centre varies, but must be main-tained. Routine monitoring of physical condition of site and care given required. Requirements of NPO Act for financial management must be enforced. Prioritise quality of care over expansion.	ECD-levels training is always necessary and the majority will benefit from training in basic bookkeeping. Mentoring in all of the above will be beneficial. Health inspector should inform them about training funded by local government.	There is a risk that the centre will lose staff as they can find greener pastures. Some put under pressure by community to take more children than they should, which can be mitigated through mentor-ing. Many of the principals are competent enough to help other centres through initial registration.	Subsidies from DSD, WCED should not subsidise but give materials and equipment if they have Grade Rs. These centres will need additional money for maintenance (R10 000 every three years).
Evening Star	Physically large centres that stand out in their environ-ment. Most are well run. Have got here through substantial support from donors. Principal is usually competent, but this is not a given. Can serve between 70 and 130 children.	Similar to above – focus on quality of care, maintaining condition of facility and sound financial management. Focus on quality, expansion not necessary.	Ongoing staff development is essential and the full range of levels will be subscribed to. Many principals have been through manage-ment training and many will benefit from this.	Same risks regarding staff and over-crowding apply as above. Major opportunities for government lie in the learning they could benefit from through collaboration.	WCED and DSD subsidies are required.
Established Centres	An established centre is in a purpose-built building or renting a municipal building. Serves between 150 and 280 children with two or three Grade R classes and large staff compo-nent. Some rent premises and therefore are hesitant to invest in upgrading them so aspects of the site are inadequate.	Monitoring of quality of care and physical condition of site. Focus on quality and continual organisational capacity development: they are large and good administration is critical. Should be treated like a school.	Many staff will have completed the ECD levels but ECD and other ongoing staff development critical.	They feel they deserve better recognition from the state and unless this is given, with support for salaries, there is a large risk of a large amount of flight of staff into schools. WCED likely to steal their most competent staff.	DSD and WCED subsidies, equipment and learning materials. Should be helped to apply for public works funding that can be spent on their property if state-owned.

4. Detailed findings on ECD centre income and expenditure

This section discusses in some detail the key issues identified by the research with regard to ECD centres' costs and funding.

4.1. Access to financial statements

Of the 18 centres that fell within the analysis, 10 were able to produce financial statements. Three other centres prepared financial statements but they were not made available.

These are critical statistics as most of the centres that could produce financial statements were able to raise income from donors and/or fundraising activities, whereas very few of the centres that could not produce financial statements had any success when applying for donor funding. Good financial record-keeping is very important to donors.

An analysis of the financial statements was performed. Eight financial statements for the year ended March 2007 and two for the year ended March 2008 were analysed. The following general observations were made:

- Salaries are the largest expenditure items at all the centres. Salaries as a proportion of total expenses ranged from 40 per cent to 80 per cent. Food averages 15 per cent of total expenditure; however, the financial statements cover a period preceding the recent increase in food inflation rates.
- Subsidy income made up 9 per cent and 11 per cent respectively of total income at two centres; the next-lowest figure was 38 per cent. Three centres relied on subsidies for more than 80 per cent of their income.
- There is a clear positive link between fees charged and the proportion they contribute to total income. However, fee income as a proportion of total income was only above 50 per cent at two centres. The average fees charged by centres were used as an imperfect indicator of the extent of poverty
- Only two centres did not receive income from other sources as well as fees and subsidies during the period under analysis. On average, 20 per cent of income came from donors and/or fundraising.

4.2. Sources of income

4.2.1 Government subsidies

Of the 18 centres in the sample, 33 per cent received subsidies from the WCED and 75 per cent received subsidies from the DSD. Some of the staff at two of the three centres serving the wealthier communities were paid by the WCED. A small proportion received once-off grants from the WCED to buy equipment on an ad hoc basis and some of them received toys and materials from the DSD, also on an ad hoc basis. About a quarter of the centres had received small grants from their municipalities.

The only centre that knew how much the WCED was paying got R7 per child per day of attendance in the Grade R class and the value of this subsidy varies according to the area the centre is in. Officially, centres in the Western Cape must use 70 per cent for salaries and 30 per cent for equipment, which all of the receiving centres understood. Attendance forms must be submitted quarterly by the centres and the department pays for two terms (two quarters) each time they make a payment. Every centre that received WCED subsidies commented on how irregularly the funds were paid and how cautiously they spent the money because they did know what period the payment was covering. Furthermore there is deep unhappiness at the stipulation that it is for salaries and equipment when schools might need other things or children might need feeding (Ndingi et al., 2008; City of Cape Town ECD conference March 2008.)

A few said they would prefer the WCED to pay the teacher salaries directly and would also like to be advised on the salaries they pay. The effects of how the disbursements are calculated and the conditions attached to them should be reviewed, especially if conditions applied to salaries are involved. For instance, a centre that only pays Grade R salaries from WCED funds would be forced to pay that salary based on attendance of children at the school. It is questionable whether incentives or sanctions linked to child attendance at school should be placed on teachers in this way.

At the time the research was performed, the DSD subsidy was R9 per day per child from a household whose income was below a specific level. At the time of writing these thresholds were about to change. The way in which the DSD subsidy should be spent is discussed in Section 6.3, but none of the principals knew anything about this nor did they report on it. There was debate about these thresholds during the research and based on observations, enforcing these requirements is likely to have the opposite effect they are intended to have as the DSD does not have the capacity to monitor the spending and the centres lack the capacity to provide such detailed financial reports on a sufficiently regular basis.

Only one centre visited knew that the subsidy had been increased to R9 per day and a few thought the subsidy was still at the 2006 level, an indication of the quality of communication with some centres and distantly centres monitor their income. All centres submitted monthly claim forms to the provincial office in Cape Town; many of them would submit them by hand to Cape Town at a substantial monthly cost, which can be avoided. There was generally a low level of understanding of whether the subsidy is paid per day the child attends or not, as payments from the DSD to the centres did not fluctuate. In practice, the subsidy is paid to the centres based on the number of children they register at the start of the year and payment continues as long as they submit claim forms on a monthly basis.

Besides comments on how uncertain WCED payments were, centres were satisfied with their payment and reporting arrangements with the DSD and WCED *until* they needed to change the number of children registered and then the delays discussed in the registration section would become problematic.

4.2.2 Financial donations

As for most findings, centres' success at applying for financial donations was very mixed across the sample and is a function of the variable capacity to apply for funds.

A significant number of the centres had successfully received funds from the Lottery for a few years and this looked set to continue. The record-keeping ability of these centres was notably good and they were able to produce any financial information (e.g. financial statements, invoices, monthly reconciliations etc.) when requested. All of them were assisted in writing their proposals and their success appears to be driven by this support as well by the as ability to spend and report accurately on that spending. These centres were all registered as NPOs, hence the emphasis on the value of this registration and basic training in record keeping above.

Four of the centres received donations from the Community Chest, which were very small in comparison to the Lottery funding, but helpful. One of the centres' funding from the Community Chest was suspended for a short period because she used an unregistered auditor to audit her financial statements. The Community Chest helped her get the financial statements audited by a registered auditor and only then did they resume the support. At a different centre, the plot it operated on was in the name of the mother of centre's principal and not the centre, something she had been trying to get the city council to help her change for more than five years. The principal had applied for funding for renovations to a large donor that only funds building works and the application was rejected because the property was not in the name of the centre. These are the only examples given from principals who understood why their applications were not successful and they provide an indication of how important due process is to donors. Other centres have applied and been unsuccessful, but didn't understand why.

MySchool is a card system in which partners pay a percentage of the purchase to a school (see http://www.myschool.co.za). This system was only used by one school. It is not surprising that this school charged the highest fees; however, there are a number of partners that serve the poorest communities and therefore any centre can potentially benefit from the system.

The ability to maintain financial records has a critical influence on the ability of a centre to access donor funds and the basic skills set required by principals is described in Section 3 above.

4.2.3 Fundraising

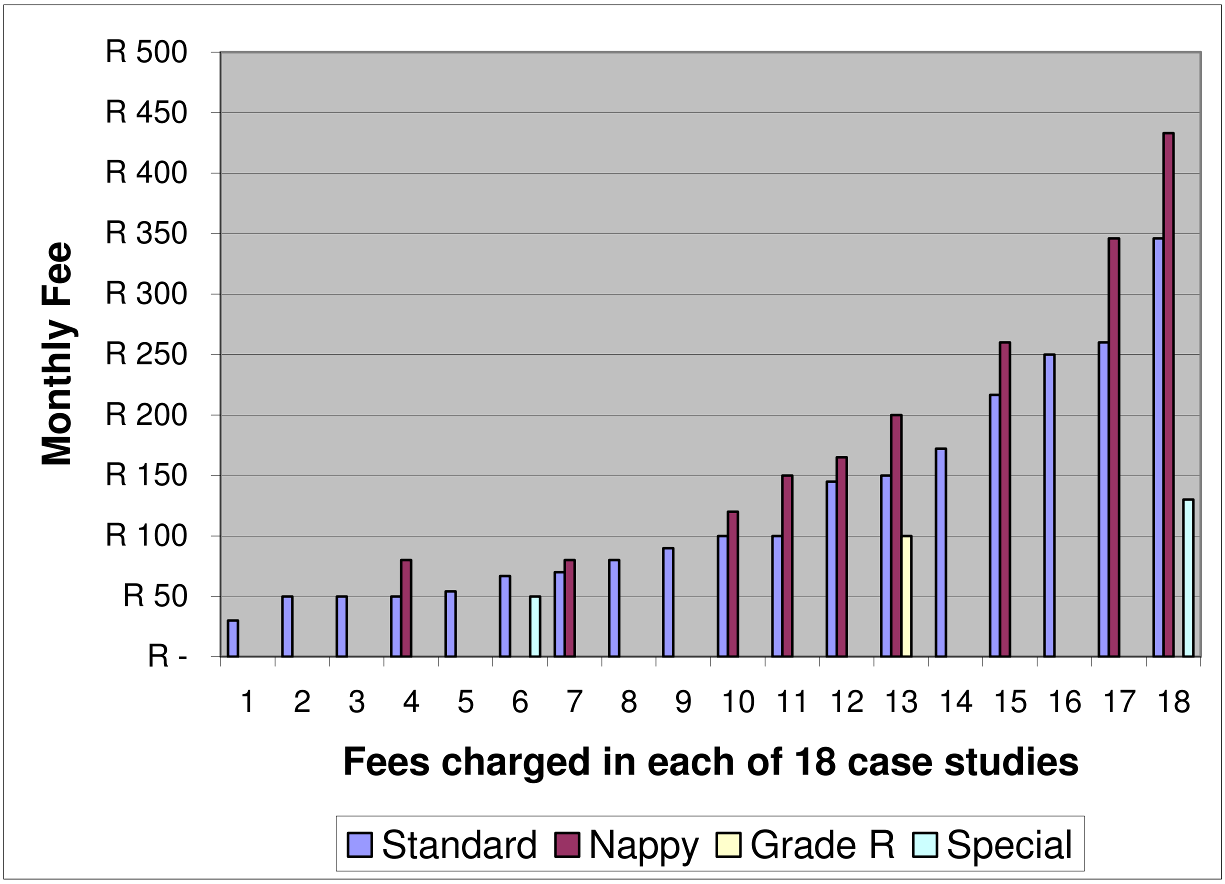
At the wealthier facilities, fundraising events were generally very successful, whereas in the remainder of the sample there was a very mixed view on fundraising with no clear patterns discernible in the experiences reported. These experiences ranged from great success with fêtes and carnivals, to a once-a-year collection, to not even trying as previous attempts had been futile. Fundraising is not a reliable source of income for centres, and even less so in the poorest communities. The vulnerability in some of these communities is so extreme that no matter how willing or innovative the principal is, they are simply not worth the effort.

4.2.4 Fees

As stated above, fee income as a proportion of total income was only above 50 per cent at two centres. Fees ranged from R30 per month in the areas outside Cape Town to R450 per month in Cape Town. Due to the range of fees, it is misleading to identify an average fee, but most centres in urban townships charged between R90 and R120 per month.

The spread of fees charged is shown in Figure 12. The fees are sorted, in ascending order, by standard fees charged.

Figure 12 – Range of fees charged at centres



The following are the most salient points to be made about Figure 12:

- Of the seven centres with the lowest fees, six are in rural or peri-urban areas.
- At most, centres had three different fee categories and eight of them offered only one fee. These fees were charged regardless of hours attended.

- The centres that charged the highest fees were not subsidised; however the majority of children at these centres would be subsidised if the centre was registered and therefore subsidising centres increases their affordability.
- In addition to the full day-care they provided, two centres offered after-care to children from other centres in the afternoons at a special rate.
- Of the centres charging the highest fees, numbered 13 and above in Figure 12, only one is registered and subsidised. The rest receive no income from government.
- Of the centres that took children on nappies, all except one charged more for these children. A large proportion of the centres chose to take children only once they were off the nappy due to the cost of caring for children on nappies. This relates to staff ratios required for babies.
- Only two centres in the sample that received subsidies offered CSG recipients a discounted fee (numbers 6 and 18).

Two of the centres visited were in areas where most parents worked as contract workers on fruit farms. During the off-season, between April and August, these schools expected revenue to drop by as much as 40 per cent as parents could not pay fees. These two centres would generally waive fees during this time and preferred children to continue attending, to ensure that they were fed and continued developing. One of these principals claimed that she had no choice because of community pressure. Income from fees dropped to very low levels over December and January at most centres, and most closed for two to three weeks over this time.

Only two of the centres shown in Figure 12 (numbers 16 and 18) and the centres serving the wealthier communities (not reflected in the figure) forced parents to withdraw their children if fees were not paid. Two of the centres required parents to work at the centre to pay off fees when they did not have money to pay.

When parents could not pay, the priority concern of most centres was to prevent parents from feeling they were obliged to withdraw their children because of non-payment. Most of these principals were convinced that parents would pay if they could. In the urban areas, non-payment was generally only a problem for about 5–10 per cent of parents, and was characterised by intermittent payment of fees rather than complete non-payment. If parents could not pay for a short period of time, their fees were waived; if they could not pay for longer periods they would be asked to volunteer. There were very few cases of complete non-payment, and when asked what they did if parents could not pay for extended periods the usual reply was: "We know their circumstances and we will help out, but if parents have work then they pay."

Three of the centres occasionally encountered a small number of parents who would not pay for a few months, and then withdraw the child and take them to another centre, or leave the community. However, due to the networks that exist in these communities this practice would catch up with those parents who did not leave the community. Due to the small sample size it is not clear how widespread the above practice is (leaving before paying debts), but mentors to some of these centres said this problem is widespread.

The financial logic of taking non-paying children out of centres or keeping them there needs to be appreciated. Many of the centres charged less than R100 a month, yet thought they were earning R154 per month per child (now actually R198 – 22 days per month × R9) from subsidies. Officially, the child has to attend the centre for it to earn the subsidy, although that requirement is not strictly enforced. At worst, the intermittent payers were a small group of parents, and it makes more sense to waive their fees a few times per year and earn fees from them for the remainder of the year than to make the child leave the centre and not earn any fees or subsidies from them.

Most of the principals were more concerned about the consequences of the children not attending the centre (e.g. progress already made being lost, children being used to beg, or remaining neglected and unfed at home) than about the lost revenue. Some principals had to provide advice to parents to make them appreciate the need for their children to be in the centre. Two stories are worth sharing to give a sense of the typical attitude found at some of the centres:

- One principal knew that one of the children was used to help the mother beg for money. The principal sat the parent down and chastised her for this behaviour, and insisted that she work as a cleaner for a few days a week to pay off the school fees.
- At a different centre, a parent who is receiving the CSG moved from Durban to Cape Town with her child. Because of the move, she could not receive the CSG due to a bureaucratic bungle that lasted more than a year; but it was known at the centre that she would receive the grant once the problem was corrected. During this time, the child could attend the centre for free, but had to bring its own food. The problem in the system was corrected and the mother received back-payments for all the months she had not received the CSG; however the centre only asked that she pay fees from the time she began receiving the grant and not for the months she got free. Some people may be horrified by the idea of a mother on CSG being made to pay fees, but the story was told with great pride as an example of the assistance the centre gives.

At the time of writing there was debate about whether a grant beneficiary should pay fees or be exempted. Only two centres in the entire sample charged a lower fee to parents receiving the CSG, *but still charged them*. Many of the principals said they are hesitant to offer blanket discounts to categories of people as that practice creates tension among the parents who are not receiving the discount.

It is critical that the social pressures placed on these centres by their communities be understood. Overcrowding is a often an indicator of need, not greed, and centres that are overcrowded must be helped out; punishing them will only be a way of punishing the children.

4.2.5 Fee exemptions

Very few of the centres offered any form of fee exemptions; many commented that they were "charging so little as it was". Only two offered exemptions if parents had more than one child at the centre, and two others offered exemptions for three or more children. Given the age group, only 6 children out of 1 271 benefited from exemptions or discounts.

4.3. Categories of expenditure

4.3.1 Food costs

Food costs were difficult to estimate and the majority of the centres complained about rising food prices. Sixteen out of 18 centres served breakfast and lunch, and a third of them served morning and afternoon snacks. The centres that did not serve breakfast or lunch either opened after breakfast time or insisted that children bring their own breakfast.

Table 6 is a summary of the sources of meals served by different centres. A total of less than 100 per cent in the right-hand column indicates that some centres did not cater for that meal, either because they opened after breakfast (11 per cent), had breakfast late so there was no time for a morning snack (6 per cent) or closed too early to provide an afternoon snack (17 per cent).

Table 6 – Meal provision at centres

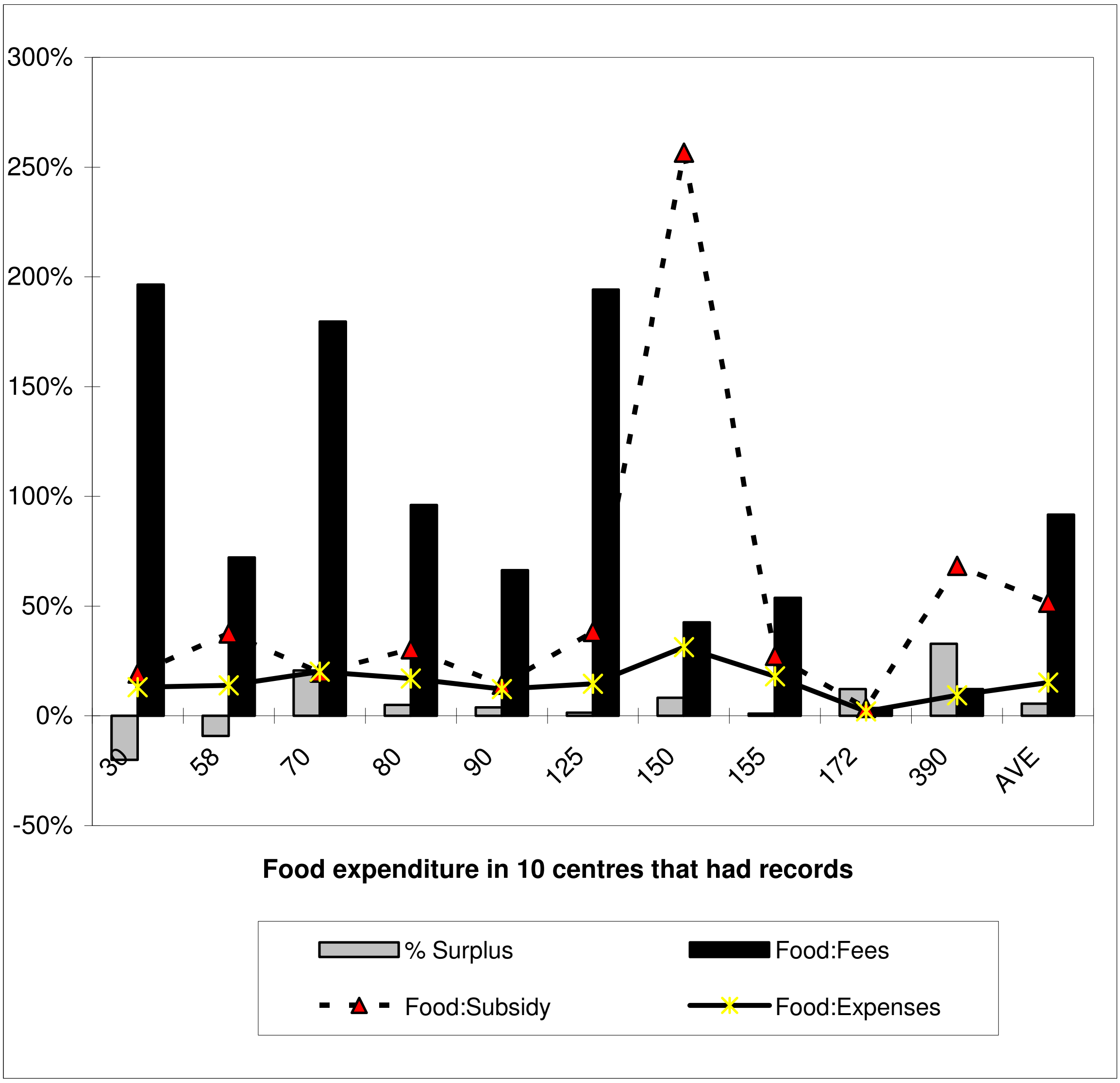
	Donated food	Centre provides food	Children bring own food	Overall provision
Breakfast	28%	61%	0%	89%
Morning snack	6%	33%	56%	94%
Lunch	6%	83%	11%	100%
Afternoon snack	0%	28%	56%	83%

The following findings are significant:

- Five of the centres received breakfasts from donors. Two experiences are worth sharing:
  - In a community where three centres were visited, only one received donated breakfasts. The two that did not receive donated breakfasts were home-based.
  - A well-known prison prepares porridge and leaves it at a drop-off point for all centres in the community to collect.
- The 89 per cent that provided lunch to children (83 per cent from the centre's funds and
  6 per cent donated) served cooked, wholesome meals.
- About half of the centres that gave afternoon and morning snacks (33 per cent and 28 per cent respectively) had originally allowed children to bring their own food, but stopped this as the children would bring unhealthy snacks. Most of the centres that did not provide snacks did serve bread in the morning and fruit in the afternoon to children who did not bring their own.

At the time of the research, food inflation was at levels previously unseen and many of the centres were complaining about these costs and how they "had to spend all their fees on food just to feed the children". Accurately estimating the costs of feeding children is difficult to do as the arrangements varied across the centres and aggregated data in financial statements, besides being outdated due to the above-mentioned inflation, represented different arrangements and was therefore inaccurate. The Excel models developed as part of this study use food costings based on the nutritional needs of a child as advised by the DoH.

Figure 13 – Analysis of food expenditure in relation to diverse income sources



Most centres gave children *ePap* (ePap is a brand of fortified cereal) or porridge, which is easy to prepare to an acceptable standard and to serve in large volumes and transport to centres once cooked. In the sample, two centres were receiving prepared breakfasts for the children, from separate donors. There are a number of NPOs that can be contracted by the state to provide meals on this basis, as a cost-effective way of ensuring that children start each day fed, which there is substantial evidence to prove is beneficial to learning.

Figure 13 shows the relationship of food expenditure to the income received to cover food costs.

Figure 13 indicates the following with regard to food costs:

- Most centres earn small surpluses, but the above sample has a bias of well organised centres indicated by their ability to present audited financial statements.
- Three of the centres, none of which are placed in the top third in terms of income, spend nearly twice the amount they received from fees on food. For three other centres this figure was between 65 per cent and 100 per cent. At the schools charging higher fees these proportions dropped significantly. This is relative (different total fee income and constant food prices) and as a result of the schools that charge higher fees expecting children to bring more food to school than the poorer schools. This shows the constraints the poorer centres face in meeting basic needs.
- As a percentage of the subsidy centres received spent on food, most range between 20 per cent and 40 per cent. The centre that caused the spike in the Food : Subsidy curve received an unusually small amount in subsidies and the spike may be an indication that there are many more children in the centre than it should have.
- As a percentage of total expenditure, expenditure on food averaged 15 per cent and ranged between 9 per cent and 20 per cent (excluding the centre with dubious bookkeeping practices).

4.3.2 Staff salaries

As stated earlier, salaries are the largest expenditure items at all the centres (see Figure 14). Salaries as a proportion of total expenses ranged from 40 per cent to 80 per cent.

Figure 14 indicates the following with regard to salary expenses:

- The subsidy : salaries curve shows subsidies from the DSD as a percentage of the wage bill, so where this value is larger than 100 per cent the centre is spending less on salaries than it is receiving in subsidies. There is no clear link between this curve and the average fee or the proportion of subsidies to total income and suggests that there is no clear link between the salaries teachers are paid and support received through subsidies.
- Although the salary as a proportion of expenditure varies significantly in this sample, as a proportion of expenditure salary costs range from 40 per cent up to 80 per cent. If the two centres where this figure is 80 per cent (fees = R172 and R90) are excluded, the range is between 40 per cent and 60 per cent. One of these two centres has unusual bookkeeping procedures and therefore not all expenses are recorded, the other centre has many expenses covered by a donor which are not reflected in their financial statements.
- At two centres, income from subsidies is 11 per cent and 9 per cent respectively; the next-lowest proportion is 38 per cent and that centre derived 55 per cent of its income from donations. At three centres subsidy income makes up more than 80

per cent of total income. This shows how reliant these centres are on subsidy income.

- Four of the ten centres derived 30 per cent or more of their income from sources other than subsidies and fees, and there is no correlation between these proportions and fees charged.
- As can be expected, the centres charging higher fees earned a larger proportion of their income from fees. The largest proportion fee revenue accounted for of total revenue at the six poorest centres was 21 per cent, again stressing the reliance of these centres on subsidies and donor funds.

Figure 14 – Analysis of salary expenses in relation to diverse income sources

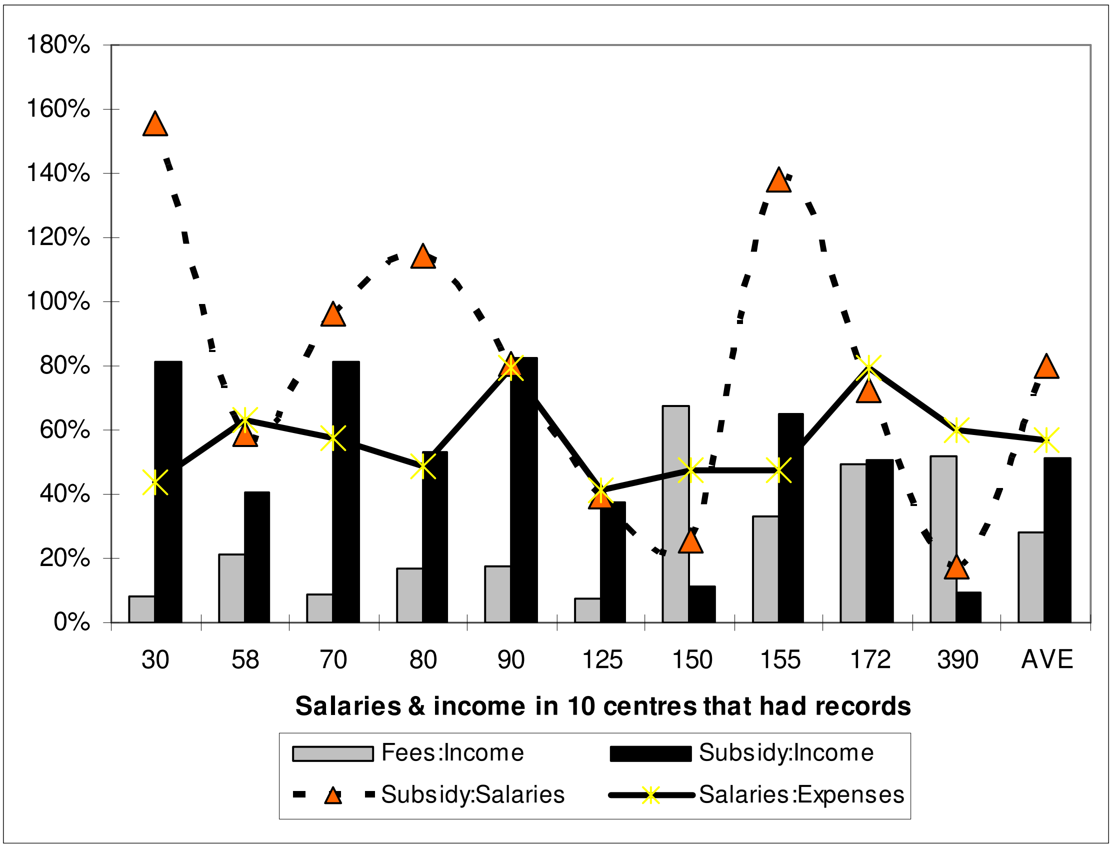
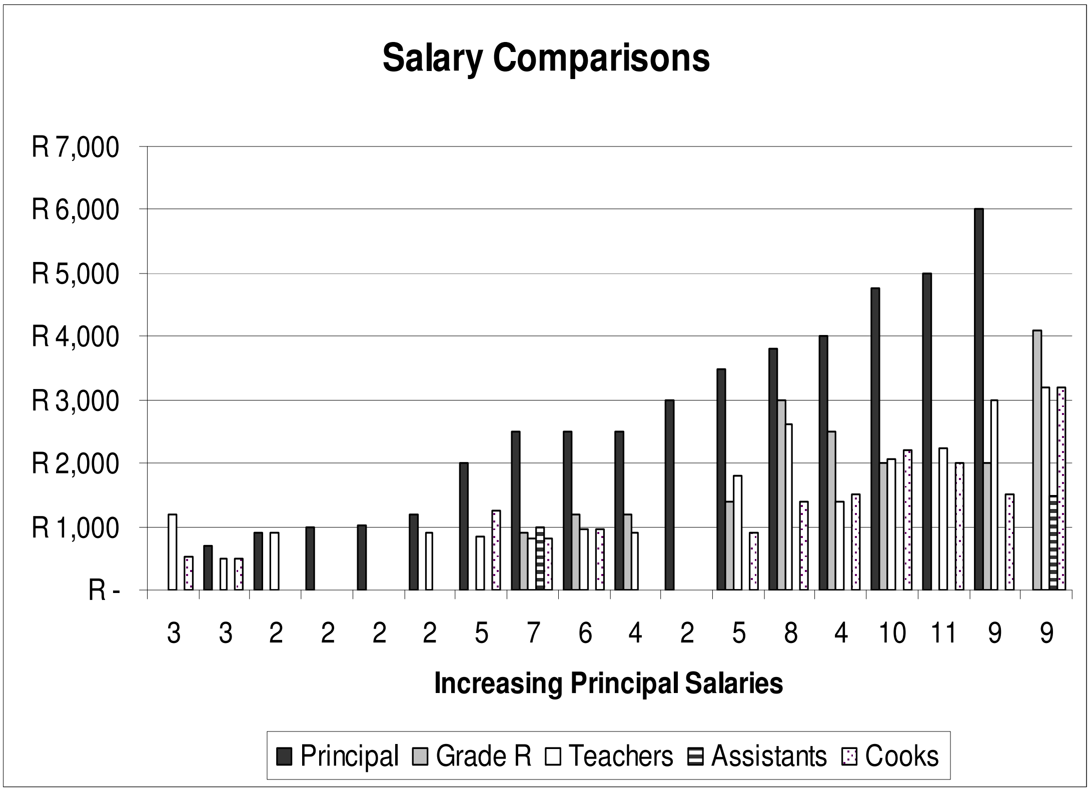


Figure 15 shows the range of staff salaries. The data are sorted in ascending value of principal salaries along the horizontal axis. The number of staff employed in the centre is shown along the *x*-axis.

Figure 15 – Comparisons of salaries paid to staff



The salaries for two principals could not be obtained. One of these principals had not calculated her salary as the centre provided an additional source of income to the household which was used to cover household expenses (on the extreme left of the graph), and the other would not give details of her salary (on the extreme right of the graph). At three centres, the only salary shown is a principal's salary as there were two staff and each earned the same salary.

By using the figure and reflecting on the field work, the following comments can be made about staffing arrangements across the sample:

- Most of the smaller centres (5) only had two staff members. At these centres the staff would share the tasks of running the centre, including caring, cooking and cleaning. All of them hired maintenance staff on a temporary basis. The largest of these five centres had 50 children on the register.
- In all cases the principal's salary was substantially higher than that of the next-best paid person.

- Most centres determined the level of pay according to years of service at the centre, rather than qualifications of the practitioner or their role. Therefore cooks and cleaners who had been at a centre for a long time earned more than a starting teacher.
- Sixty-seven per cent of the centres had full-time cooks, four centres had full-time cleaners and four centres had full-time care keepers.

Table 7 summarises the salary levels by averaging them according to top third, middle third and lowest third. For some salary types the range was not wide enough to warrant three averages.

Table 7 – Average Monthly salaries of ECD employees in Research Sample

Employee type	Average of the highest third	Average of the middle third	Average of the lowest third
Principal	R 4 170	R 2 800	R 1 134
Grade R teachers	R 2 902		R 1 175
Teachers	R 2 624	R 1 250	R 862
Teacher assistants	R2 200	R 1 400	R 900
Cooks	R 2 224	R 1 275	R 680
Cleaners		R 950	
Care keepers	R 2 100		R600

Teacher assistant salary levels are only relevant in the larger centres and need to be considered in context. Very few of the centres employed official teacher assistants, and the salaries for teacher assistants are salaries of practitioners dedicated to giving support to teachers at the larger and better paying facilities. At these centres salaries are paid based on years of service rather than on the role performed, and therefore one class could have a teacher assistant who earned more than the teacher in a different class at the same school. At the smaller centres, the cook and cleaner would often perform a part-time teacher assistant role.

An issue related to staff salaries is children-to-practitioner levels. Findings on this are presented in the next sub-section.

Community Chest Salary Information

The Community Chest provided a database of organisations they support in early 2009, after the first draft of this report had been presented. That database includes 149 ECD centres that can described as partial care facilities. All these centres are registered as non-profit organisations and are either already registered with the Western Cape Department of Social Development as a partial care facility or are in the process of being registered.

Table 8 is a summary of an analysis of the salary information from 2007/2008 annual financial statements of 149 centres. The analysis is purely quantitative. The largest centre cares for 250 children and the smallest centre cares for 11 children. In total the sample cares for 14 665 children.

Table 8 Monthly Salaries of ECD centres supported by the Community Chest

Category	Number in Category	At Centres	Lower Third	Higher Third	Highest Salary	Average	Correlation
Principals	88	88	R 1,417	R 2,333	R 5,762	R 2,256	0.38
Managers	19	18	R 2,750	R 3,171	R 3,850	R 2,695	0.38
Cleaners	23	21	R 792	R 1,100	R 1,505	R 905	-0.01
Cooks	76	70	R 800	R 1,116	R 2,022	R 1,018	0.22
Teachers	341	116	R 1,131	R 1,778	R 4,280	R 1,530	0.24
Teachers Aids	126	53	R 1,000	R 1,305	R 3,057	R 1,207	0.28
Domestic	56	38	R 793	R 1,386	R 2,503	R 1,113	0.19

The column headings can be read as follows, using Managers as an example. Within the sample of 149 centres there are 19 managers employed at 18 centres, which means one centre employs 2 managers and the rest that employ managers employ only one. The lower third is the highest salary of the lowest tercile (third) of salaries, the higher third is the highest salary in the second tercile of salaries and the highest salary is the highest paid in this sample, which is often an outlier. The average is a straightforward average of all salaries and the correlation is a correlation of salary paid to number of children in each centre.

There are other categories of staff employed, but so few centres employ them and their salary levels are anomalous and therefore excluded from the sample.

The following is worth observing:

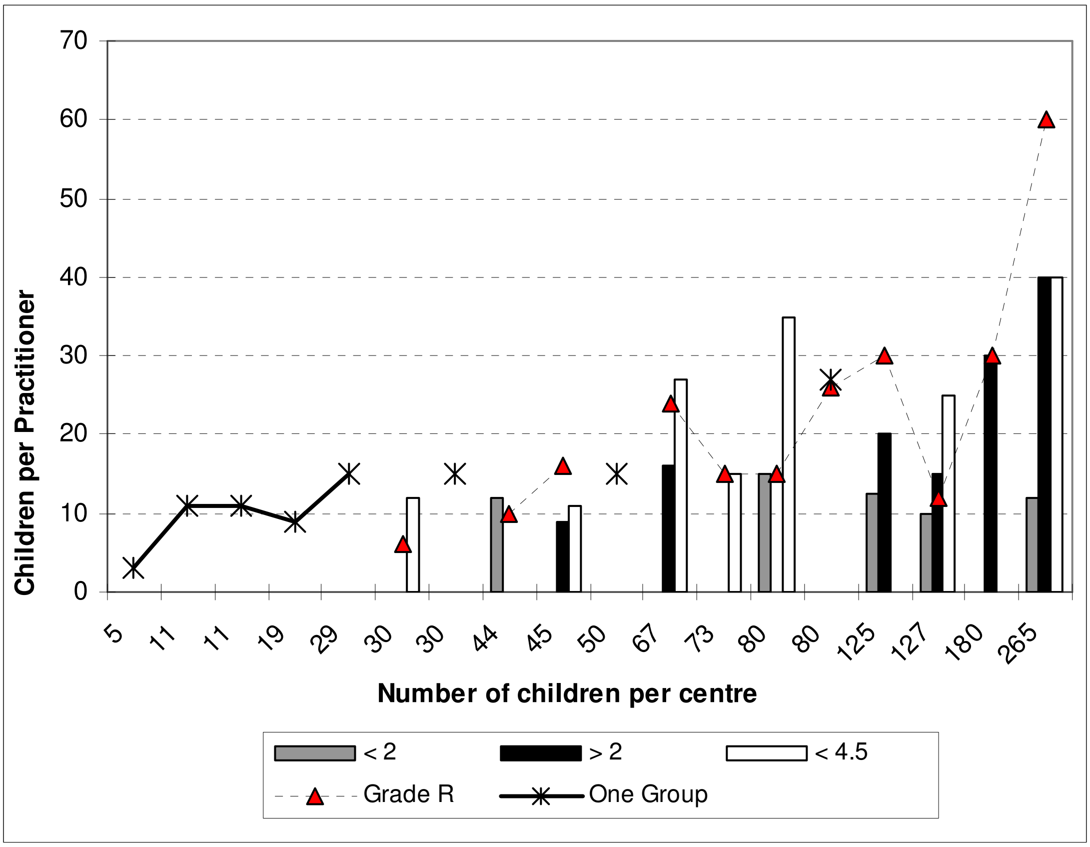
- There is a moderate correlation between the size of the centre and the salaries paid to managers and principals, but a much weaker relationship between size of centre and salaries paid to other categories of staff, with almost no correlation between centre size and cleaner salaries. A larger correlation would not be expected given the size of the smallest centre compared to the largest centre.
- Not all centres employ teachers, and deeper analysis shows that some centres employing teacher aids do not employ teachers.
- Deeper analysis than provided above shows that very few of the smaller centres employ cleaners, whereas there is an even spread of all other categories of staff across size of centres.
- When the salary levels and numbers of children in centres are plotted on a graph in ascending order there are no discernible patterns of thresholds of either.
- At least 43 centres have neither a manager nor a principal.

4.3.3 Children-to-practitioner ratios

The children-to-practitioner ratios in the ECD guidelines were adhered to at very few of the centres. Seven of the centres had thirty or fewer children, and all these centres only employed two staff members, one of whom would usually act as principal and the other as assistant teacher and cook; they would share cleaning responsibilities. The middle third of the sample, in terms of number of children, mostly employed a teacher assistant who would "float" across classes and most had a full-time cook. The largest centres had assistants in each class, at least one full-time cook and a cleaner. All centres that employed cooks and/or cleaners would use these staff occasionally to help with child care.

Figure 16 shows the range of children-to-practitioner ratios at the centres in the sample.

Figure 16 – Ratio of children to practitioners



From Figure 16 it can be seen that:

- Two centres have more than 30 children per practitioner, at one centre the age group was 4-5 age group and the other was a Grade R class. ECD guidelines require this to be limited to1:20
- All the centres with children less than two years of age had children to practitioner ratio of less than 15 with this age group. ECD guidelines require this amount to be 1:6 for up to 18mths and 1:12 for children 18mths to 3 years

- The Grade R classes are the largest. Regulations require this is no more than 30 children.

The above ratio requirements were seldom met.

4.3.4 Training costs and needs

The sample was biased towards centres that were receiving training, as they were accessed through a training organisation and its networks. However, no centre said the cost of training was a barrier to them going on training programmes, and most centres welcomed any ECD training they could attend.

At the smaller centres, when a staff member went on training the normal arrangement was for a parent to fill in, for a small fee for the day. At the larger centres, the gaps could be filled by existing staff members; often this would be done by the cleaner, who would typically be at the start of a career in child care. Only one principal complained about the cost of replacing staff when they were on training and her complaints were valid. She was the only principal not attending training herself; the other principals probably did not complain as they had no grounds to do so.

When asked what kind of training they would like to receive, most principals said they would like to continue "doing the ECD levels" so they could do their jobs better. Half of them asked for administration/management/bookkeeping training. Courses on computer literacy were also requested frequently.

The other half were asked if they would like this kind of training and all said that they would. This type of training should be provided to all principals. All principals should be offered a basic course in financial management through which the principal learns how to:

- file and record invoices;
- compile monthly income and expenditure statements;
- reconcile their income, expenditure and bank balance (once this skill is obtained it can be applied daily, weekly or monthly);
- plan and implement a basic budget/cash flow.

Ndingi et al. (2008) make similar recommendations to the above and also recommend wider staff and programme (child care) management capacity development.

In addition to the principals, these opportunities should be extended to members of SGBs. Ensuring that the above skills exist within centres will make a tremendous difference to their ability to manage finances and thus to the sustainability of the centres. The gap between acceptable levels of financial management and actual levels at some centres was worrying. The value of good financial management systems is huge.

The training mentioned above must be complemented with a mentoring process. Due to a combination of complex factors, including high levels of turnover in centres and low levels of literacy, this mentoring is an extremely arduous and energy-sapping task for the mentors. Anecdotal evidence from NGOs that provide support to centres suggests that the levels of training provided are often too high for principals to understand and that it is generally more constructive to mentor practitioners in a facility. The same applies to training in financial management. The above list of financial management skills is basic, and should feature in a NQF Level 1 qualification.

There is no easy method of building this capacity; while the cost of training courses can be estimated relatively easily, the cost of the mentoring, which is where the real return on the investment in training is earned, is substantially larger and difficult to estimate.

4.3.5 Transport costs

Most centres would host an outing at least once a year; some had four outings a year. A small number of these outings were arranged by a donor and for the remainder, costs would be recovered from the parents.

The only other centre-related transports costs were for shopping trips (usually R150 for a return trip) and to drop off claims forms (depended on where they were placed, but ranging from R18 to R50 return) once a month (at the DSD) and once a quarter (at the WCED).

4.3.6 Learning materials

As important as learning materials are, very few centres knew how much they spent on this. At all the centres that provided financial statements, expenditure on stationery and educational toys was less than two per cent of total expenditure. The other centres could only give rough estimates of these costs, and they were of the same value in relative terms.

Educational toys (e.g. puzzles, wooden pegs, building blocks, buckets etc.) and books that are well cared for can last for a long time before they need replacing, and most centres have toys and books that look as if they have been there since the centre opened. There were also examples of educational equipment that had been made from recycled equipment (e.g. cans from canned food that had been painted) which is very cheap to make, and very difficult to cost.

However, there are learning materials that are consumed during learning exercises (e.g. paints, crayons, paper, play dough) that have to be replaced on a regular basis. The Excel models estimate these costs for different class sizes and age groups based on actual prices of materials from the Grassroots Shop, and estimate "recommended" consumption of materials. There is no correlation between the cost estimated in the model and those shown in the financial statements of the centres. This under-expenditure is a result of centres not buying these materials, either because they have other spending priorities and/or are because the materials are donated. Therefore centres that are not receiving donated materials are probably not buying sufficient quantities of consumable learning materials, which are a critical input into educational programmes.

Many of the centres visited appeared to receive substantial volumes of learning materials from the DSD and WCED, hence the emphasis elsewhere in this report on the value of centres at least trying to register with the departments.

One centre suggested that the departments should consult with the centres about the learning materials they give to centres, as the packages often contained equipment they could not use and were short of some materials they could have used more of. At a few centres the evidence of this was clear in the form of piles of unused equipment left in their original packaging.

4.3.7 Clothing

Few of the centres provided clothing of any form for the children. One of the centres, based in the city, had an arrangement with an upmarket fashion house in which the children would test products (e.g. shoes, clothes) in return for keeping the products once the trial period was complete.

Two centres received sponsored uniforms which they would sell to the parents. Buying and wearing the uniform was voluntary, yet many parents chose to purchase them as the uniforms were cheaper than normal clothes and of better quality. Children of the young age groups attending these centres should not be forced to wear uniforms, for a variety of reasons; however, there are contexts in which they are a cost-effective alternative for parents.

4.4. Cost savings and innovations

Even though the research set out to find innovative practices that could be replicated elsewhere, no meaningful examples of these were found during the study. Some related issues are discussed below.

4.4.1 In-kind support and the use of volunteers

Very few centres could share any substantive examples of in-kind support they received from their communities. Most centres are seen as a business by community members, and thus as a source of opportunities to make money through trade with them.

The use of volunteers was very low, which is not surprising when one considers the level of need in most of the communities visited. Five of the centres had an arrangement with an NGO that placed European volunteers; however, these volunteers received very mixed reviews and appear to be used as assistant cleaners in most cases.

A few centres had received used toys, learning materials and equipment from other centres in their community and suggests that a potential cost-effective way to get materials to centres that are invisible to the state is to give more materials to the established centres and encourage them to pass on unused materials to other centres in their community. This should not substitute endeavours to work directly with these same centres.

4.4.2 Forum membership

Many of the centres visited were under the impression that the DSD required centres to belong to an ECD forum. This was followed up with the department and no such requirement exists. They are encouraged to be part of fora because this helps the department to communicate with them.

The perception of this requirement across the sample varied, and a significant proportion thought membership was compulsory. One centre was part of a forum that had completed their constitution and was about to apply for NPO registration "because the department requires this", which is not true.

The purpose of fora and extent of forum involvement is very mixed, as is the benefit of involvement in these fora. In one community, three centres were visited and two felt the area forum was very constructive, whereas the third person said it was dysfunctional. This forum had 24 members. In a different community, two centres, within walking distance of each other, had different understandings and views of the same forum, but both said so far it had worked well. This forum had 50 members, with a crisis sub-committee of 15.

Two communities within a few kilometres of each other were visited. Each community had a separate forum, each consisted of 12 centres. These fora were formed by a donor organisation that operated in the area and gave centres vouchers for Pick `n Pay. The centres could use the vouchers only for specific purchases, mostly food, and had to attend the monthly meeting with the donor to produce receipts of purchases and collect the voucher for the next month. It does not appear that these fora are linked to government; however, both centres said the forum meetings were very constructive for information sharing with each other and provide help as the need arose. This model is potentially replicable.

Another forum consisted of 12 centres, spread across 5 different residential areas; it had originally been formed by the centres in the area in response to a lack of support from government and had already formed a constitution. This forum was spoken of highly by the centre involved.

It appears that the smaller fora work better than the larger ones, with 15 being the largest forum that was spoken of highly by all involved. By using fora the departments will tap into the social networks that exist within communities, and they are likely to provide a very efficient and effective means of communicating with centres and bringing them into the system. A forum also offers a mechanism through which the centres can share with and learn from each other in their context and therefore improve the effectiveness of this learning. As networks are formed on trust and trust is earned and cannot be created or forced, the departments must ensure that requirements placed on networks are not too formal or simplistic, so that they can evolve out of natural bonds of trust that exist within communities. The departments should consider the size of fora very carefully, as natural bonds of trust required to keep these fora functional have natural limits, most likely around 15. The most efficient way of working with fora will be to allow them to cross existing service area boundaries and engage with more than one per service area.

Unfortunately some ECD fora are also known as gatekeepers (in regard to protectionism and price fixing) and restricting fora size to a maximum of 15 could be an effective monitoring mechanism against this sort of behaviour. By using a system similar to the voucher system referred to above and the approach of self-selection used by the Grameen Bank (Yunus, 1999), and keeping fora small, departments could develop very effective mechanisms for communicating with and monitoring ECD centres without facing the threat of fora controlling certain areas.

4.4.3 Sourcing groceries

The standard shopping practice at centres is to do a large monthly shop for dry goods and cleaning materials at a supermarket such as Pick `n Pay, Shoprite and/or Makro, and a large shop for fresh produce at the same shops and/or Fruit and Veg City, as well as buying locally, on a weekly basis.

Only one of the centres interviewed had an arrangement with a local spaza shop to buy on their behalf. One shops at Hawker's Paradise near Epping Market and two, which were in the same area, had an arrangement with someone who would buy fresh produce at Epping market and deliver to them. Besides these examples, there were no examples of co-operative buying or any innovative arrangements to source groceries.

Most centres do not have any unused space and so do not have space to store large volumes of dry food, nor do they have the facilities to store large volumes of fresh or frozen food. Therefore most shop on a regular basis. Safety and security are also a concern.

The standard rate to perform a large shop, in which a centre would hire a bakkie to deliver their goods, is around R150 a return trip. The larger centres (over 100 children) have to pay this twice a month as they do separate dry goods and fresh goods shops; the smaller centres need only pay this transport cost once a month.

4.4.4 Mentoring relationships

A few of the centres were mentored by intermediary organisations, which were also interviewed. The focus of the mentoring ranges from helping with simple tasks (e.g. basic bookkeeping and filing) to support with complicated tasks (writing proposals to funders). The centres spoke very highly of the value of these relationships to them. The mentors spoke about how time-consuming and energy-sapping the mentoring relationships were, but how desperately they were needed. A lot of the energy is invested in completing very simple tasks (like completing an application for NPO registration). These mentors felt that without the mentoring, most of the training that ECD centre staff attended was not implemented and was therefore wasted.

The Western Cape DSD and the City of Cape Town acknowledge the important role these mentors play; however, ways must be explored in which these organisations, which work at the grassroots, can be better supported financially.

4.5. Summarising findings on expenditure and income

In concluding this section, we can confirm that the analysis does not reveal any significantly surprising trends in income and expenditure, but it is worth highlighting the following three points:

- The poorest centres are least likely to cover food expenses through own income, and are therefore extremely reliant on government to cover these basic needs.
- There appears to be no correlation between fees charged and the proportion that subsidies make up of total income of centres, which supports findings made elsewhere that children qualifying for subsidies do not get special rates.
- There is no discernible link between the amount a centre earns in subsidies and the salaries it pays to teachers.

5. Other key findings on issues affecting ECD centre provision and functionality

5.1. Important histories

The centres were all asked to give a short history and/or motivation for themselves, which revealed very interesting narratives that described what appear as the most pressing issues facing young children in the community. Even though only one principal suggested that the centre had been started as a job opportunity, it is assumed they would not have started the centres if doing so did not offer some form of job opportunity. However, two important issues are noticeable from these histories and are worth commenting on:

1. Practically all of the people who started the centres said the reason for doing so was to feed the children and provide them with security, as opposed to providing a place of education and care.
2. All centres were started in reaction to a glaring need to feed and protect the children.

As the histories were fairly diverse, key themes are difficult to categorise. However, some points are worth considering:

- Very few of the centres that, from a physical perspective, appear to be providing a high-quality service were able to finance their way through subsidies and fees alone. They all needed additional support and all could demonstrate that they could use such support effectively.
- A significant proportion of centres that are providing a decent service started in the owners' lounge or a shack in their back yard.
- Three of principals took over a centre that was started by their mother when she fell ill.
- A significant number of principals have graduated from being cleaners or assistants at the centre they run now, or have started their own centres.

The implications for going to scale are:

- Not all principals prioritise an environment that facilitates early stimulation, and they need to be supported and mentored on how to achieve this.
- Many future capable principals and practitioners are currently working as cleaners and cooks and a substantial return can be achieved by building their skills.
- Where there is a mushrooming of centres, it is more likely to be an indication of need rather than greedy entrepreneurs.
- Centres need external financial support beyond fees and subsidies to grow.

5.2. Challenges with Registration

For a full description of NPO and facility registration processes please see section 6, this section highlights some of the challenges with NPO and facility and programme registration.

5.2.1. NPO Registration

The understanding of NPO registration processes varied enormously and the lack of awareness displayed by some is worrying. At one extreme, some centres were completely unaware that any of the processes existed or were required, nor did they understand how they could access relevant information. At the other extreme a few centres were fully aware of and understood the processes required well enough to advise other centres on how to apply for NPO and ECD registration.

The experiences of the NPO registration process varied considerably across the sample accessed. The process ran smoothly for very few centres, but based on their experiences it appears that complete registration can happen in less than six months. For the majority, the process was extremely frustrating due to poor communication from the relevant departments, especially the NPO directorate.

This research has not involved any assessment of the capacity of the NPO directorate; however, it appears that the directorate is at best reactive, whereas it could save organisations significant delays if it took proactive steps to help them register. All centres that battled to get registered had to do all the following-up themselves, and would wait in excess of six months to hear that their application could not be processed because one section of a form was incorrectly filled out or missing. These were always petty issues that one would expect staff at the directorate to phone and inform the applicant that a few simple procedures were still outstanding. For these centres, substantial time could have been saved, as well as money spent making phone calls, taking trips to places they can fax from etc and they could have accessed desperately needed subsidies much earlier.

The level of understanding conveyed by the frontline service provider from the relevant departments (the health inspector from local government and the social worker from the DSD) plays a critical role in communicating these needs to centres. These officials can also play a very constructive role in helping centres obtain full registration.

The requirement to be registered as a NPO to receive subsidies was introduced in 2006 and some centres starting receiving DSD subsidies before that time. Therefore there are some subsidised centres that are not NPOs, but are currently registering as NPOs. Since this requirement was introduced, only centres that are registered as NPOs are receiving the subsidy. Some centres had completed their registration with the DSD, but were not receiving subsidies and did not understand that they had to register as an NPO to receive subsidies. Their complete lack of knowledge about the NPO registration process and its value is worrying, and is definitely a function of poor communication in their district of the DSD.

A number of difficulties were created where departments did not register centres because of unclear land ownership and lease agreements, which are difficult for resource-poor centres to overcome. This varied by area, as some centres operated on land that they did not own or lease, yet had full registration from all departments.

5.2.2. Programme and Centre Registration

As discussed in the case studies, many centres are caught in a catch 22 because they can't afford to improve their centres to meet the standards required for health clearance and therefore access subsidies, but if they got subsidies they could use that money to upgrade their facilities. This research has not resolved this problem, which is both complex and complicated.

Most centres (in this sample) said that if they were successful the first time they applied for facility registration, getting programme registration was straightforward, however a frequent complaint was the length of time it took for centres to be re-visited by the relevant departments, once improvements had been made to the centre or the centre had moved. As the number of children they could serve had changed and/or the facility had changed, the ECD registration process had to be repeated to register the increased number of children and the new facility. Some had been waiting for more than two years for the relevant department to update their status and were thus not receiving income from subsidies they were entitled to for this period. Some centres have had to wait this long after failing their first inspection. Both the WCED and the DSD were criticised harshly for these delays.

Two NGOs that support ECD centres emphasised the extensive hand-holding and mentoring that most newly established centres need to get through the registration process.

5.3. Management structures

The management board or governing body of a school has a significant influence on the running of the centre and it is important to discuss their value in this research as they have a direct influence on how financial support is turned into quality care. The exact roles and responsibilities of governing bodies are described in the individual NPOs' constitutions.

Of the entire sample (n=21), 14 had SGBs in place, 5 had management boards and 2 were operating without either. One of the centres with neither structure was a farm school, subsidised by the owner of the farm, and the other centre did not understand why they should have a governing body, even though they had been operating for eight years. The differences between SGBs and management boards are discussed below and comments are provided on these.

5.3.1 School Governing Bodies (SGBs)

SGBs are elected annually during an AGM from among parents of the children. The principal is usually elected as a de facto additional member and some of the centres had two staff members on the board. The roles and quality of support provided by the SGB varied across the sample. The treasurers and secretaries of the more constructive SGBs help with bookkeeping, fundraising activities and writing letters and proposals to prospective donors. These SGBs also play a social regulation role and influence parents to pay fees. They could provide substantial relief to the principal and also ensure that significant resources were accessed. A further challenge is that while a great deal of capacity-building is done for SGBs, often with donor and public funding, the short period children are at centres means that this capacity does not stay with the centre and needs to be done on a regular basis in communities where there is little management experience.

At many of the centres the members of the SGBs were not literate, did not understand the role of an SGB and were therefore of little help. The principals at these centres relied heavily on external supporters to play the roles mentioned above. A few principals (three) from the poorest communities said that getting a governing body to work properly was very difficult because of the high levels of migration.

5.3.2 Management Boards

All the management boards were inherited by the principal from an earlier arrangement. The management boards are not elected from parents and some were formed and operated in very opaque ways. The management boards at the rural centres were criticised for not providing support and were accused of withholding funds. These claims could not be validated, but there was clearly a tenuous relationship. Two urban centres had similar arrangements and praised their boards for the support and assistance they provided. The management boards in the rural centres oversaw a range of operations unrelated to ECD (e.g. one acted as an umbrella body), whereas the urban management boards oversaw a number of ECD centres. It appears that ECD is given a low priority when bunched with a range of other projects, or its requirements are not fully understood.

6. The policy and legal context for provision of ECD 0–4 in South Africa

This section sets out the constitutional and policy-based allocation of responsibilities for provision of ECD 0–4 years across the different spheres of government – national, provincial and local – and the private and NGO sectors, describes current government policies for funding and scaling up ECD 0–4 provision, and presents evidence on the need for such scaling-up initiatives.

6.1. Governance arrangements and the need to scale up centre-based ECD 0–4 year service delivery

In terms of the Constitution of the Republic of South Africa, three government departments, namely the Department of Health (DoH), Department of Education (DoE) and Department of Social Development (DSD) have the overwhelming share of responsibility for ECD 0–4 years policy, funding and service delivery; and three spheres of government all have a role to play in ECD 0–4 years provisioning.[2]

6.1.1 National government responsibility

National government's responsibility is largely limited to policy and monitoring. Hence its budgets, which are primarily to pay for staff to conduct policy and monitoring work, are relatively small.

6.1.2 Provincial government responsibility

Provincial government's responsibility is to lead service delivery/deliver programmes and fund policy and programme implementation. With respect to the division of the funding responsibility across the DSD, DoE and DoH:

- First, the provincial DSD is responsible for monitoring and funding (not full cost) agencies offering ECD programmes. To date, the latter has been largely for centre-based ECD programmes (Biersteker et al., 2008; Streak & Norushe, 2008). The primary way in which the provincial DSD funds ECD centres is via payment of a per child subsidy to registered centres for children whose caregivers pass a means test. The provincial DSD funds non-centre-based service delivery via funding non-governmental service delivery programme proposals submitted to the DSD (Streak & Norushe, 2008).

[2] The sharing of responsibility for ECD policy, budgeting, implementation and monitoring between the DSD, DoH and DoE is the typical governance pattern for ECD 0–4 years provisioning internationally (UNESCO, 2007).

- Second, the provincial DoE has responsibility for funding training of personnel, curriculum guidelines and learning materials.
- Third, the provincial DoH has responsibility for funding provision of health programmes and services.

6.1.3 Local government responsibility

Local government's responsibility is to support the provincial government in ECD 0–4 years provisioning. The Children's Amendment Act (No. 41 of 2007) clarifies that the role a municipality may be determined after consultation with the provincial government Recent research (Biersteker & Streak, 2008; Streak & Norushe, 2008) found local government's role in ECD 0–4 varies substantially across municipalities. The most important role of municipalities is to assess compliance in ECD with minimum health standards for registration and supplying compliance certificates to DSD.

6.1.4 Non-governmental and private agencies

The actual delivery of centre-based ECD programmes is undertaken by non-profit organisations and private agencies, of which only a small proportion receive financial support from government (Biersteker & Streak, 2008). In the context of limited government funding for centre-based ECD programmes for children aged 0–4 (channelled via the provincial DSD), the NGO sector has traditionally played a key role in supporting ECD programmes for children aged 0–4 years (Development Bank of Southern Africa & University of Pretoria, 2007; Streak & Poggenpoel 2005). This role is illustrated in the present study of centre-based costs and revenues.

6.2. Extent of funding of ECD 0–4 years

To date government funding for ECD 0–4 years programmes has flown primarily to centre-based programmes, which dominate service delivery (Biersteker, 2007; Biersteker & Streak, 2008; Streak & Norushe, 2008) but only cover 22.6 per cent of children aged 0–4 years (2007 Community Survey, cited in Biersteker et al., 2008: 1). Biersteker, 2007 and Streak and Norushe, 200 show that funding for and coverage of non-centre-based initiatives is very low. In the context of the high incidence, depth and severity of child poverty amongst children aged 0–4 (see Streak et al., 2008)[3], the high prevalence of HIV/AIDS and the limited coverage of ECD programmes, there is a desperate need to scale up both centre- and home-based services for children aged 0-4.

[3] Streak et al. (2008) estimate the poverty headcount, severity and depth amongst children aged 0–4, using income per capita as the welfare measure and the recently released 2005/06 Income and Expenditure Survey. Setting the poverty line cut-off at the 40th decile in the national income distribution (R6 542 in 2007 terms) the poverty headcount at the national level amongst children aged 0–17 is estimated to be 65.5 per cent, and 66.1 per cent amongst children aged 0–4. The child poverty headcounts are even higher in some of the nine provinces, with three provinces, the Eastern Cape, KwaZulu-Natal and Limpopo, having poverty headcounts for children aged 0–4 years of over 75 per cent.

Due to the structure of the intergovernmental fiscal system in South Africa, provincial governments have discretion over amounts allocated to ECD 0–4 years as it is funded from provincial equitable share. Provincial Treasuries consider business plans from line departments and competing priorities to propose what is allocated to departments. In the context competing priorities and tight budget constraints, they do not allocate the funds necessary to implement the ECD 0–4 years scaling-up initiative launched as part of the EPWP. Leading government officials involved in ECD 0–4 years in the DSD and DoE have been lobbying government since the launch of the ECD EPWP initiative for ring-fenced funds to be allocated from the National Revenue Fund to provinces for scaling up ECD 0–4 years.

The value of subsidies varies per province, but there is movement towards equity across provinces (Streak & Norushe, 2008). The DSD-recommended subsidy per child for 2008/09 is R9 (Biersteker et al., 2008). In the past the subsidy was intended for nutritional support, but in practice the subsidy contributes to all costs of centres, including salaries as there is no government funding stream for salaries in this sector (Biersteker et al., 2008). In recognition of the broader needs of centres, the DSD has recently proposed a new subsidy breakdown as follows: 5 per cent for overheads; 25 per cent for approved programme personnel; 5 per cent for preservation of assets and equipment; 10 per cent for preservation of a healthy living environment; 15 per cent for electricity and rent; and 40 per cent for the nutrition of a child (DSD 2008). This research has found that centres lack the ability to accurately report on this and government does not have the capacity to process these reports.

6.3. ECD 0–4 years scaling up as a leading government priority and the policy framework

Since 1994, expanding access to ECD programmes amongst children, particularly those at risk due to poverty and other factors, has been a leading priority of government. Immediately after the transition to democracy the focus was on scaling up a Reception Year programme (Grade R) targeted at children aged 5, which falls under the DoE. This will be universally available to nearly one million children by 2010. Norms and standards for funding the Reception Year have been legislated and provincial budget allocations towards providing for the access and quality requirements are increasing (Biersteker et al., 2008).

More recently, attention has shifted to meeting the needs of South Africa's 4.98 million children under the age of 5 years. In 2005 government produced the NIP for ECD (see DoE, DoH & DSD, 2005), an umbrella policy document designed to guide scaled-up provisioning of an integrated service package for children under the age of 5 years, with a focus on poor and other vulnerable children. The package includes primary health care services, birth registration, CSGs and early stimulation. A feature of the strategy is to move beyond centre-based provisioning (Streak & Norushe, 2008) and the policy framework acknowledges that these services can be offered via the home, through a range of community programmes or at early childhood centres. The NIP is "[a plan set out at national level and not yet...one driving budgeting and integrated service delivery at provincial and municipal level, which is where the budgetary and service delivery action that matters for young children takes place" (Biersteker & Streak, 2008: 7–8).

ECD 0–4 years was included as one of two social sectors targeted for service expansion, quality improvements and job creation in the EPWP, an illustration of government's commitment to investing in this sector. The ECD scaling-up initiative, which is focused on expanding access to and improving the quality of service delivery via *centre-based* programmes, is described in the *Expanded Public Works Programme Social Sector Plan 2004/05–2008/09* (DoE, DoH & DSD 2004). The EPWP ECD has two key thrusts, the DSD thrust which focuses on centres and ensuring sufficient financial support to centres (explained above) and the DOE thrust, which focuses on training practitioners.

More recently, government revealed its commitment to expanding access to ECD 0–4 years programmes by including the scaling up of ECD programme as one of government's 24 APEX Priorities for 2008, presented in the State of the Nation address (Mbeki, 2008). In the description of the ECD APEX priority it is stated that this includes expanding the number of trained staff, doubling the number of sites (presumably registered sites) and child beneficiaries (presumably of the DSD per child subsidy) by the end of 2009. The DSD, working with the DoE and DoH, is given the lead supervisory, implementation and monitoring roles in relation to this task (Republic of South Africa 2008: 3).

The policy framework for ECD 0–4 years provisioning, as well as the legal framework, to which we now turn, is informed by the rights commitments to children in South Africa, as set out in the Convention on the Rights of the Child (ratified in 2006), the African Charter on the Rights and Welfare of the Child (ratified in 2000) and the South African Constitution.

6.4. The legal framework

6.4.1 Framework overview: Children's Amendment Act and norms and standards

The Children's Amendment Act (No. 41 of 2007) is the primary piece of legislation governing ECD 0–4 years provisioning. In the Children's Amendment Act, ECD issues are included in Chapter 5 (partial care [facilities]), Chapter 6 (early childhood development programmes) and Chapter 8 (early prevention and intervention services). Chapter 7 (child protection) is also very significant for young children in that children under 5 years are at the greatest risk of physical neglect and abuse, resulting in statutory interventions. This underlines the need for seeing early prevention and intervention as an ECD issue. Chapter 13 covers child and youth care centres, which include young children in increasing numbers as a result of the HIV/AIDS pandemic (Biersteker & Streak, 2008).

Chapter 6 of the Act (ECD) defines ECD services as including those offered by someone other than the child's parent or caregiver and, together with Chapter 5 (partial care), provides for the registration and monitoring of such services. Only registered services are eligible for subsidisation. The registration process (described in detail below), as past research (Streak & Norushe, 2008) and this study illustrate, is cumbersome for many service providers. This is due both to limited capacities at the grassroots levels, in government departments and among registration authorities as well as to the procedural requirements. In view of this problem the legislature has provided for a category of conditional registration.

Chapter 8 of the Act contains a number of provisions relating to families, and there are clear links to the emerging ECD service focus on prevention and on household- and community-level services (see discussion of the NIP for ECD below). For example, Article 144 specifies some focus areas for prevention and early intervention services or programmes, including:

> *(b) Developing appropriate parenting skills and the capacity of parents and care-givers to safeguard the well-being and best interests of their children including the promotion of positive, non-violent forms of discipline; (c) developing appropriate parenting skills and the capacity of parents and care-givers to safeguard the well-being and best interests of children with disabilities and chronic illnesses; (d) promoting appropriate interpersonal relationships within the family; (f) preventing the neglect, abuse or inadequate supervision of children and preventing other failures in the family environment to meet children's needs; (g) preventing the recurrence of problems in the family environment that may harm children or adversely affect their development; and (i) avoiding the removal of a child from the family environment.*

It also indicates that such services and programmes may include assisting families to obtain the basic necessities of life, and empowering families to obtain such necessities.

Clause 78 (partial care) and 93(1) (ECD) provide that provincial Members of the Executive Council (MECs) for Social Development *may* provide and fund such services, but provisioning is not compulsory. The Act does require that national and provincial and, where relevant, local government take reasonable measures to achieve the realisation of the objects of the Act (Biersteker & Streak, 2008).

Norms and standards have been developed by the national DSD for ECD centre-based provisioning (see DSD 2006); these norms have implications for costing because they specify minimum facility sizes (e.g. 1.5 m^2 per child indoors, separate spaces for cooking) and practitioner-to-child ratios).

6.4.2 ECD centre registration requirement process

All centres that care for six or more children are required by law to register with the provincial DSD. The first step centres should follow is to apply to the DSD for registration. In response to this application, a welfare planner will conduct a needs assessment at the centre and ask a health inspector to inspect the facility. There are two processes that can run concurrently: health clearance and NPO registration.

- The Children's Amendment Act provides a framework for the registration of partial-care facilities. In the Western Cape this is described as health clearance. Section 79(2) of the Children's Amendment Act describes the physical standards that should be met by facilities (e.g. (79, 2a) a safe environment, (c) adequate space and ventilation, (d) safe drinking water, (i) measures for the separation of children of different ages, etc.). These standards are determined by the Minister of Social Development after consultation with various role players and are therefore national standards. If a centre meets these standards it is provided with a health clearance certificate. Health clearance is a local government responsibility, and is limited to a physical inspection of the facility conducted by a health inspector. The inspector provides the centre with a certificate to provide care for a number of children below the age of two and a separate number older than two years. This certificate entitles the centre to apply to the office of the provincial DSD for registration as an ECD service (see below).

- NPO registration (NPO Act Registration) is conducted through the NPO directorate in Pretoria. Applying organisations must submit an application form with a constitution. The application form requires the applying organisation to clarify where in the organisation's constitution the requirements of section 12 of the Non-profit Organisations Act (No. 71 of 1997) are explained. Once registered, NPOs must submit audited financial statements to the NPO directorate on an annual basis to maintain their status as an NPO. Centres must also register as public benefit organisations (PBOs) with the South African Revenue Service (SARS) to benefit from certain tax exemptions.

When the centre has received health clearance, the health inspector informs the provincial DSD of this status and the ECD programme provided by the centre can then be registered as an ECD service, as per the requirements of section 95 of the Children's Amendment Act. The inspection for this registration is usually performed by a social worker who is an official of the provincial DSD, and involves reviewing the educational programme (schedule) provided by the centre and the financial recording system (but not necessarily the records) of the centre. If the centre meets the required standards it will then be registered as an ECD service. All centres providing partial care must register as ECD services, even if they do not apply for NPO registration or subsidies from the departments. Centres with a Grade R class can register that class with the DoE.

Centres that are registered as NPOs can apply for subsidies from the DSD. The details of these subsidies are explained in the next section, but it is important to emphasise that a centre cannot receive a subsidy from government unless it is registered as an NPO. Centres in the Western Cape that are not home-based can apply for subsidies from the WCED for the Grade R class if the class is 30 children. In rural areas and on farms smaller numbers are allowed provided that the class is viable. It was found during this study that, in practice, the difference between a home-based facility and a facility that is not home-based is not clear. At the time of the research, centres that received a subsidy for the Grade R class also received the DSD subsidy for the same children; however, this is being phased out and a new after-care subsidy will be paid by the DSD to Grade R pupils.

Sections 80(2) and 95(2) of the Children's Amendment Act allow the minister to exempt organisations from the conditions discussed above. In the Western Cape, if a centre is unable to meet all the standards for health clearance, but the physical condition of the centre is such that the health of the children is not compromised, the centre is given conditional registration for an initial period of six months. The DSD follows the advice of the municipal health official in this regard. Once the centre is given conditional registration it can receive the DSD subsidy on condition that it uses its income to improve the physical condition of its facility. If the centre has not met the conditions within these first six months it is given another six months to meet the standard. By this time the standard must be met, otherwise the subsidy is terminated.

A facility and a programme are registered for two years, after which they renew their registration. While their registration is being renewed they can continue to operate as normal. It is important to note the following aspects of this process that can confuse centres:

- Three spheres of government are involved.

- The two provincial departments impose different reporting requirements; award the subsidies on different bases; and apply different conditions to their usage.

6.5. Implications of the legislation for home-based centres

In the context of the above discussion it is important to understand the constraints imposed on centres operating from private property by the legislative frameworks. The following sub-sections of Section 12 of the NPO Act describe conditions that must be detailed in the constitution of an organisation applying for NPO registration:

- 12(c)state that the organisation's income and property are not distributable to its members or office-bearers, except as reasonable compensation for services rendered;
- 12(f)ensure that the members or office-bearers have no rights in the property or other assets of the organisation solely by virtue of their being members or office-bearers;
- 12(o)provides that, when the organisation is being wound up or dissolved, any asset remaining after all its liabilities have been met must be transferred to another non-profit organisation having similar objectives.

The above sections require that the members of the governing body of an ECD centre do not have rights to any increased asset value that results from improvements to the property that may occur as a result of donations spent on the property. In addition, section 12(o) requires that if the organisation is wound down, i.e. if the ECD centre becomes unsustainable and closes down, the assets should be transferred to another NPO. When an NPO winds down, the documents they submit when deregistering will identify these assets and the NPO directorate is legally required to ensure that the assets are passed on to another NPO. SARS provides tax exemptions to NPOs that enable them to raise donations tax-free and therefore, if standard tax processes have been followed, will have records of the donations given and the use of those donations; in the winding down of the NPO they will require proof that the assets have been transferred to another NPO, which is in effect a cross-check on the NPO directorate.

Enforcing the above conditions is extremely difficult. For instance, if a private homeowner applies for donations as an NPO and uses the funds to build a room on the property, that asset belongs to the NPO, not to the homeowner. If that person later decides to close the centre down, even if for perfectly legitimate reasons, the additional classroom built on to the property should only be used by other ECD centres ("non-profit organisations having similar objectives"). How such a condition can be rigorously enforced is beyond the scope of this document; however, the above three conditions show, at least from a legal perspective, how difficult it is for home-based centres (of whichever type) to raise funds for purposes of capital improvements as an NPO.

7. Conclusions

This study reviewed the income and expenditure of 18 ECD centres that serve communities in the Western Cape that are sufficiently poor for them to receive government subsidies and used salary information from 149 centres receiving financial support from the Community Chest. While it is not a representative sample of the country, it does offer some indication of the situation of ECD centres in a range of settlement types. The type, nature and quality of service provided at the centres was intentionally diverse to ensure as wide a set of issues was captured. Using a range of prices and quantities of inputs, and even extremely low salaries, the study, like others that have preceded it has shown that current subsidy levels are not sufficient to cover the operational costs of an ECD centre. Therefore these centres have to raise their own revenue through fees, fund raising and donations.

Salaries are the largest single cost item at all centres, and are the central explanation for variations in the cost per child. The variations are caused by differing salary levels and by differing practitioner-to-child ratios. Actual salaries paid ranged from levels below minimum wages to, in very few and extreme cases, acceptable levels. The practitioner-to-child ratios also varied substantially, with very few centres meeting the required ratios as stipulated in government minimum norms and standards. In addition to the number of children per practitioner, the physical layout of the centre affects what is an acceptable ratio. There is a great degree of variation in these three factors (salaries, ratios and layouts) and therefore when interpreting the cost of salaries per child these variables must be considered. As the cost of staff is the largest item proportionally, the possibility of using volunteers to save costs may appear attractive. However, volunteerism as a means to save should not be considered as this will distract attention from the investment required in to develop skilled practitioners through formal career paths who deserve to be paid well. Besides, in the context of poverty and extreme need, pure volunteerism is actually very rare.

Typically, the next largest expenditure item was food and most centres spend about a third as much on food as they would on salaries, and often less. It was hoped that innovative procurement practices of food would be found, however few practices worth reporting were found. Centres shop at large supermarkets and many are charged business rates for transport by small transport operations in their communities. Due to high levels of crime in these communities, transporting food in large volumes that may lead to cost savings is unsafe and therefore not viable. At least five centres received donated breakfasts. The number of meals offered by centres and the requirements they place on parents to provide snacks varies substantially, however this variation should not cause the cost of food per child to vary significantly and therefore, once regional differences in prices of food have been considered, the per child cost of food can be estimated with low levels of uncertainty.

Expenditure on learning materials should be much higher than was found in the financial statements, but as these materials are often donated to centres their cost does not appear on their financial statements. Learning materials are obviously a critical input into any learning programme and the impact they achieve depends on the guidance by practitioners in their use. In calculating the cost of learning materials for a centre, the need to ensure sufficient variation that provides learning means that estimating the cost of learning materials per child is not recommended, however estimating the cost of learning materials required for a group of children can be done with high levels of certainty.

Other operational overheads such as rent, maintenance, water and electricity varied with the physical size of the centres, rather than number of children and therefore any calculations estimating these costs must consider the physical size of the centre and its location. The centres in this study do not spend enough on general maintenance, even those that appear well managed and therefore the physical condition of centre required to ensure the centre is healthy is not maintained. This is another indication that these centres do need more financial support. Other operational costs that are difficult to estimate on a per child basis include transport, outings and auditing.

For a centre to receive a subsidy, it must be a registered as partial care centre (health clearance), their learning programme must be registered and they must be registered non-profit organisations (NPO). A few of the centres in this sample could not obtain health clearance certificates because they could not afford to upgrade their centres. Therefore, they can not access subsidies they could spend improving the condition of their centre. This creates an urgent need to find ways to subsidise capital improvements to centres. Given the fact that these improvements will be to private property in poor communities, there are a number of complicated and complex challenges around making such funds available, which this study was unable to address fully.

As has been found in numerous other studies, most centres struggle to obtain non-profit organization (NPO) registration. This is clearly a function of weak state capacity in the NPO directorate, but is also a function of low literacy levels of principals in centres. The consequences of this lack of capacity, which can be overcome, is that some centres cannot receive subsidies (or donations) because of delays created by red tape and lack of capacity in the NPO directorate.

Given how the sample was selected it is not surprising that there was substantial variation in fees charged. The highest fee charged to recipients of the child support grant was R120 per month. Most of the centres analysed for this study charged between R80 and R100 per month. Most, but not all, children that are subsidized in centres are also recipients of the child support grant. In this sample, most centres did not receive fee revenue for at least a month over December or January and a small portion of parents at most centres could not afford to pay fees every month. It appears that centres understand parents' circumstances well enough to force them to pay when parents are able to, but first priority is keeping the children in the centre and on the learning programme. It is also very evident, that the Child Support Grant is treated as income that must be used to pay fees.

The shortfall between what centres receive from subsidies and fee revenue, need to be raised from fund raising and/or donors. The experience of fund raising in this sample was very mixed. The majority of centres would only use fundraising to raise funds to cover the cost of an event, such as an outing or graduation. Very few managed to raise any significant amount of money through fund raising and it is definitely not a reliable form of income for centres. Most of the poorest centres had given up fund raising because their communities could not afford to make any contributions. This economic reality must not be romanticized away under an illusion that that people will gladly do things for free because it involves young children.

A finding of this study, which is backed up with findings in other studies, is that centres that are able to accurately record and report their expenditure sufficiently well enough to prepare audited financial statements are more likely to attract donor funding. Foreign donors are more inclined to cover the cost of establishment costs as the impact of their donations is tangible, although examples of foreign donors covering operational costs were found; they are less inclined to do this. There are South African donor agencies such as the Lottery and Community Chest that provide financial support to centres that can be used to cover both operational and establishment costs. These donors only fund organisations that are registered non-profit organisations and require proof of audited financial statements. These are the indicators they use as proof that their money will be spent wisely, which they are entitled to use. A very common complaint targeted at these donors is that applying for funds is extremely arduous and complicated. The majority of centres also complain about considerable time delays and difficulties in obtaining NPO registration. Few principals are literate enough to complete the forms and follow procedures in a way that leads to successful fund raising from the above types of donors. There is a clearly a need to and a substantial return the state can earn from building the skills required to complete these forms and follow the necessary procedures. There is a clear positive link between a centre's ability to record and report on its expenditure and the likelihood that they receive donor funding. However, there is substantial variation in the sustainability of these sources of funds, whether local or foreign. The only valid conclusion that can be made about accessing donor funding is that donors like to know their funds are being well spent and therefore well managed centres are more likely to attract donor funding. Building this capacity should be an urgent priority.

Lastly, based on the sample, it appears that South African corporates do not make any significant financial donations to this sector. There is hardly any business case that can be made for this as the returns to ECD are very difficult for corporates to appropriate, however there are some avenues, such as enterprise development, that are worth exploring to address capital spending needs.

Appendix 1
Research method of the study

This section provides further details of the method used to collect data for the costing study. Section A1.1 discusses the selection of the sample of centres used in the research. Section A1.2 describes the sample profile. Section A1.3 provides a summary of the research questions and instrument used in the study and the method used to analyse the data collected. Section A1.4 presents the questionnaire that was used to collect the data for the study.

A1.1 Sample selection

All except one of the centres in the sample were selected from a broader profile of centres that have staff attending Early Learning Resources Unit (ELRU) training and/or are connected informally to ELRU. The exception was accessed through Yabonga.

This research set out to capture as wide a variety of issues affecting costs as possible. "Unknown unknowns" were sought and therefore a sample was selected based on the variety of issues that were likely to emerge. Considering the demographics of the Western Cape, variety was sought across the following criteria:

- size determined by number of children attending;
- race determined by area;
- income also determined by area;
- age served;
- location (urban, formal, informal, rural) and proximity to services;
- practicality of getting to the centre and the centre co-operating with the researchers.

Using the understanding that ELRU has of its centres and the relationships with staff and principals from the centres, staff at ELRU identified a sample that would provide maximum variety within the limited number of potential sites. During the conceptualisation of the study the decision was taken to include only centre-based service provision. A similar costing and revenue study of ECD programmes delivered at home and community level is to be conducted by the authors, supported by the rest of the HSRC team working on scaling up ECD 0–4 years, in 2009.

The term 'ECD centre' is difficult to define. This is because the types of centre (in physical terms) and the purposes they serve vary significantly. For example, some facilities visited operated in a room that was part of a municipal centre or attached to a church building, whereas others operated as stand-alone facilities, yet both are described as centres in this report.

In defining the concept of the ECD centre-based provisioning for children aged 0–4 years it is useful to draw on the Children's Amendment Act's definition, which is the umbrella legislation governing delivery of ECD programmes, including for children aged 0–4. This Act focuses exclusively on centre-based provisioning in its definition of ECD service delivery for children aged 0–4, which is part of its broader definition of "partial care". Section 76 of the Act defines partial care in the following terms: "when a person…takes care of more than six children on behalf of their parents or care-givers during specific hours of the day or night, or for a temporary period". Partial care excludes (sections 76 (a-c)) the care of a child by a school, as a boarder, or by a hospital or other medical facility. Section 93 (5) of the Act identifies two options for providing ECD programmes: (93(5a)): *a partial care facility providing partial care services for any children up to school going age.* and (93(5b)): *a child and youth care centre which has in its care any children up to school going age.*

A1.2 Sample profile

Twenty-one centres were visited; three of these served middle- to upper-income families, all of whom earned more than the minimum income level required to qualify a child for the subsidy the Western Cape DSD pays to centres. As children attending these centres are not subsidised, and because the average costs and fees charged at these centres cannot be compared to the remaining 18 centres, their financial information is not included in the analysis.

Therefore, whenever "the sample" is referred to in this document, these 18 centres are referred to. At the time of writing there is only one centre in the sample that may not qualify for subsidies due to the income level of the household the child is from. Information about the sample is summarised in Table 1, in section 1.2 of this paper.

Every centre in the sample was situated in the Western Cape Province. Two centres were in the Overberg region, two in the Overstrand region and two in the Drakenstein. The remaining 14 centres were all based within Greater Cape Town in the following suburbs: Langa (3), Philippi (2), Khayelitsha (1), Masiphumele (1), Ocean View (1), Mitchell's Plain (2), Cape Town City (1) and Vrygrond (1).

A1.3 Description of data-gathering and analysis

The questionnaire used is provided below. As the study set out to capture actual costs of service provision and innovative practices, the questionnaire was designed to capture a wide range of possible costs and asked a series of open questions about practices followed that may be described as cost innovations. A combination of qualitative and quantitative data was captured.

The questionnaire was developed by an expert in ECD, a senior researcher at the HSRC who has worked on other sections of the project, and the lead researcher who has experience in costing. This knowledge was combined, and through brainstorming and iterations the final template was agreed on.

The experience of the above researchers was drawn on to identify the range of possible quantitative data that could be relevant in terms of:

- the range of income and revenue sources;
- the types of expenditure a centre incurs;

- fee structures and fee levels charged to different children.

All centres were asked for copies of their most recent financial statements.

The judgement and research experience of the researchers was used to determine qualitative and open-ended questions that could be used to stimulate thinking about issues that lead to cost savings. In this regard a number of questions were asked about in-kind support given and support given by donors under a range of different headings.

The lead researcher administered the questionnaire for all 21 interviews. Only 1 interview was not conducted at the centre and the remaining 20 interviews were followed by an informal centre visit/inspection. The researcher was assisted by a researcher from ELRU at centres where the principal could not speak English. The salient comments raised during the interviews were recorded in writing and any cost information that was available was also recorded in the questionnaire.

Following the interviews the quantitative data were recorded in Excel and the qualitative findings were written up in Word. The analysis is provided in this report.

A1.4 Questionnaire used to collect data

This data collection sheet will only be viewed by the researcher/field worker.	
Interviewers Name:	Interview Date:

Contact Details	
Facility Reference:	
Year ECD Service/Centre Started:	
Motivation for starting the crèche/short history.	
Do you have any entry or eligibility criteria?	
Do you have any children with disabilities?	
How many spaces do you have available (now)?	

Room or separate Area	Number of children	Age of Children	Number of Practitioners	Practitioner/child ratio
1				
2				
3				
4				
5				

Do your fees change for hours of care given?

Age	Morning Care		All Day Care		Afternoon Care Only	
Hours:						
	Fees	# Children	Fees	# Children	Fees	# Children

Demographics				
Location				
Urban	Peri-Urban	Rural	Formal	Informal

Race Groups Served [If a mixture provide estimate percentages] *Please provide number per race / % of total*

African		Coloured		Indian	

White		Other:	
How would you describe the socio economic status/income level/employment status of children's carers			
Type of Centre			
Home Based (attached to home)		Crèche (stand alone)	
Are you part of a chain?		Single site	
Registration information			
Are you registered with any of the following departments:	Yes/No	If Yes, Year registered	No of children registered
Social Development			
Local Government			
Education			
If not registered please provide reasons			
If not registered for all children please provide reasons:			
What kind of funding do you receive from government? Is it per capita or within a service plan?			
How do you think the National Integrated Plan (NIP) will affect you?			
How do you apply for subsidies and do you have any difficulties accessing necessary information from care givers? [Please explain].			
Are there children that qualify for subsidies that you do not receive subsidies for? [Please explain].			
Are you registered as a non-profit organisation or do you operate for profit? [Please explain] ☐ Registered NPO ☐ Registered as CC ☐ Registered as PTY ☐ None of the above			
Please describe any assistance you received (from government, other crèches, NGOs etc) that helped you register your facility as an NPO and/or with the various departments.			
Did you have any difficulties getting registered? Explain			
Do you have a management board/governing body? ☐Yes ☐ No			
How many people on the board and how are they elected?			
In what way have your management board or governing body helped with time in kind and/or fund raising?			

Income and Expenditure				
Sources of Revenue and Income FOR THE PAST TWO QUARTERS				
First Quarter 2008				
Income	**Value per child**	**Days per year**	**# Children**	**Monthly Value**
Dept. Education				
Dept. Social Development				
Other e.g. rent				
Revenue Fees by Age Group:				
<1				
1- 2				

2 -3				
3 - 4				
4 - 5				
5 - 6				
Second Quarter 2008				
Income	**Value per child**	**Days per year**	**# Children**	**Monthly Value**
Dept. Education				
Dept. Social Development				
Other e.g. rent				
Revenue Fees by Age Group:				
<1				
1- 2				
2 -3				
3 - 4				
4 - 5				
5 - 6				
Fee exemptions by age				
	Condition	Condition (2)	Value of Fee Exemption	
<1				
1- 2				
2 -3				
3 - 4				
4 - 5				
5 - 6				
Other sources of revenue e.g. rental, training (**not donations**)		**Unit of Revenue**		**Annual Value**
Do you have any problems collecting revenue or income?				
From parents/care givers?				
From government departments				

Please describe the **financial donations** you receive (currently received):					
Source	Year first received	Basis of donation (Value Unit)	How many years?	Monthly Value	Annual Value
How do you connect to and maintain links with donors? What difficulties do you face building these relationships?					
What information do donors require and are you able to meet these requirements?					
Have any sources of funds being discontinued and what were the reasons?					

Staff Requirements and Costs					
Monthly Salary Information					
Management:	Qualifications	Months per year	Monthly Salary	Annual Cost	Benefits
Carers/Practitioners/Teachers					
Cleaning/Cooks/Gardeners					
Administrative Support					
Other Staff					
Who does your books?					
Do you have any volunteers?					
Do you screen/perform background checks on volunteers? ☐Yes ☐ No At whose cost?					
Please explain type and nature of work					

Volunteer	How was relationship established	Nature of work provided	Days per month/time frames

Operating Costs			
Operating Costs:	Descriptions (e.g. items and unit of costs)		Per Month
Telephone:			
Landline			
Cell Phones			
Fax			
Rent			
Travel expenses			
Bank Charges			
Audit charges			
Insurance			
Maintenance			
Municipal Services:			
Water			
Electricity			
Rates			
Administration Charges (outsourced)			
Stationery			
Printing			

Cleaning materials			
Food Costs (vegetables, fruit, proteins, grains, milk):			
Do children bring their own food and which meals?			

	Provided by Crèche [describe meals, help given]	Children bring their own
Breakfast		
Morning Snack		
Lunch		
Afternoon Snack		
Where do you source your groceries?		
Where do you buy fresh produce?		
Do you receive any food in kind? Please explain nature of relationship and value of food in kind.		

Source:	Relationship	Type of donation	Monthly Value (estimate)

Do you have a food garden? ☐ Yes ☐ No [discuss]
If yes, does this save money?

Do you receive any exemptions from your municipality? ☐ Yes ☐ No

Service exemption	Reason for Exemption/How obtained	Monthly saving
Rates		
Water		
Electricity		
Did your municipality help you with any land?		
What is your travel expenses required to cover? Could these costs be saved?		
Do you receive any other form of in-kind donations? E.g. travel or management assistance, toys, learning materials		

Source:	Relationship	Type of donation	Monthly Value (estimate)
Other operational costs:			

Less Frequent Costs (annual, quarterly)

	Description of unit cost	Annual Cost
Outfits/Aprons/Bibs:		
Mattresses/sponges:		
Learning Materials:		
First Aid/Medical Supplies:		
Other: e.g. concerts, graduation		
Do you receive any of the above in kind? List below with estimated values.		

Donor Type	Nature of relationship and length	Unit of Cost	Annual value

Please describe any other relationship with donor (s) (how long, what is received, nature of arrangement).
Costs of Training
How often do you send staff on training [if every year because of turnover then state this] and is this part of career pathing?
Please provide cost estimates of sending staff on training (in the last year):

Item	Applicable (Yes/No)	Cost per Staff member	Annual cost
Tuition costs			
Travel			
Accommodation			
Other costs associated with training			

training do you need?
What start up costs have you had to incur?

Item (include donated goods)	Describe	Total Cost
Building		
Plot		
Toilets		
Basins		
Flooring		
Mats		
Curtains		
Windows		
Burglar Bars, alarm system		
Roofing		
Kitchen Equipment		
Educational Equipment		
Outdoor renovations		
Indoor Renovations		
First Aid		
Fencing		
Furniture:		
Chairs		
Tables		

Cupboards		
Shelving		
Fridges		
Stove		
Have you managed to recover any of these costs? Please explain how.		
What assistance did you receive in raising money to cover these costs?		

Access to services:

Which of the following departments visit you (at your site)?

	How frequently	Why do they visit and what are the outcomes?
Education		
Police		
Social Development		
Local Government		
Environmental Health Inspector		
Fire inspector		
Health		
Clinic		
Other departments e.g. Traffic		

What is the estimated distance you have to travel to the following sites of service

	Distance and cost	Reasons for visits	Frequency
Education			
Police			
Social Development			
Local Government			
Health			

Please describe any assistance you receive in accessing services from third parties? E.g. travel support.

Do you have any difficulties in accessing services? e.g. distances between various service centres, bad roads etc.

Other

Do you have any other arrangements not already mentioned that help you to save costs?

Nature of Arrangement	Nature of support/Help

If you could change any three things to save costs, what would they be?
1
2
3

What three things would help you raise additional income?
1
2
3

Any other comments:

Facility Checklist (to be performed by the field worker)						
Describe environment						
Type of road	Tar	Dirt	Foot path			
Source of cooking	Gas	Electricity	Solar	Fire	Other:	
Types of toilet	Flush	Chemical	Pit	Potty	Commode	Bucket
Type of building	Conventional brick	Traditional, mortar,	Shipping container	Prefab	Informal	
Water source	Tapped water inside	Tapped water outside on site	Communal tap within 200m	Communal tap further than 200m	River/dam	
Separate area for cooking			Stairs and stair gate?			
Fire extinguisher						
Computer and Internet access Describe						

Appendix 2
Using the costing and forecasting models

This appendix explains how the costing and forecasting models, whose results are presented in section 2 of the paper, can be used. The models were developed with the intention of producing realistic forecasting tools for cash flow needs of ECD centres. While the models are developed in Excel, they are designed so that they can be used by people with no understanding of Excel. In this regard, users of the model *should* need to enter in only information on the PLAN sheet and a starting bank balance on the Cash Forecast sheet.

The only sheets that a user should need to view are the above two sheets. The Cash Forecast calculates a total for the year on the right hand side of the sheet. The PLAN sheet shows all major cost assumptions (e.g. individual salary levels and number of times paid per year) that would be of interest to someone who reviews the Cash Forecast. Therefore a centre that uses the model for planning purposes should only need to print these two sheets.

For the sake of clarity, the following terminology will be used: an Excel file that contains a number of worksheets is called a *workbook*. In this document, workbooks are called *models*. Two models have been developed: one for the smaller centres that do not receive WCED subsidies (the first three described in section 3.2 of the paper) and one for the larger centres that do have subsidised Grade R classes.

A2.1 Limits of the model

The models are designed in Excel and use information collected during the research to calculate a cash flow forecast. The forecasts produced by models like these are only as good as the assumptions used in building the model and cannot take account of unexpected events or human error. When using these models it is important to take cognisance of the discussion on the limits of costing presented in the literature review in Appendix 3, because of the linearity in assumptions made in the model: these models forecast totals based on assumptions and are therefore only as robust as the assumptions.

Although the Excel sheets use complicated formula to translate the assumptions into accurate cash flow implications, all totals are a result of a ‘price times quantity’ equation. Therefore, whatever is inputted by the user has a direct effect on the cash forecast. There are no mechanisms in place to moderate what the user inputs and users must take care to ensure that any figures they enter are realistic (i.e. make sure that income estimates are conservative and expenses are accurate).

However, conditions in the real situation may still make the forecast inaccurate, despite these conditions of use being met. For example a user may follow the instructions below, enter in realistic income and cost assumptions and produce a cash flow forecast that shows the centre will produce a surplus. If in reality the income inputted turns out to be much lower and the costs much higher, the centre will actually accrue a deficit rather than a surplus.

A2.2 Potential uses of the model

The models were developed to provide a tool that would enable quick and easy forecasting of realistic scenarios of the cash implications of different levels of income and cost assumptions. In this respect the model produces a cash flow forecast that shows monthly deficits/surpluses, cumulative deficits/surpluses and an annual surplus/deficit.

The model can thus be used:

- As a financial planning tool for centres and develop actual forecasts of cash flow needs and therefore help centres identify where they should try save costs and/or raise additional revenue. This can be done at the click of a button.
- As a monitoring and reporting tool for centres and NGOs working with centres. A centre can agree on a financial plan at the beginning of the year and the model can track how they have followed those agreements throughout the year.
- For training on financial management and planning.

A2.3 Basic rules of use

Excel allows the blocking of access to sheets and/or sections of sheets. These models have intentionally been left unblocked to avoid complications that usually arise when sections of sheets are blocked. But this increases the need for users to be careful when entering data into the sheets as they will be given no warning if they are entering data into cells where they should not be; correcting such errors could require an advanced understanding of Excel.

To mitigate these risks the following basic rules of information entry must be followed:

- Numbers can or should be entered in cells that are shaded in light turquoise. A description of the number required will either appear in bold at the top of a table that the cells form, or in red bold writing on the left of the cell. The user is required to enter a rand value (e.g. monthly salary), a number of units (e.g. number of children, number of times a salary is paid) or a percentage (e.g. percentage of total payment received).
- All cells that are shaded in light yellow contain drop-down menus. When the user places the cursor on such a cell a small grey box with a downward pointed triangle will appear to the right of the cell. If the user clicks the grey box a menu of options will appear and the user must choose the option that is closest to their needs.
- Cells that are shaded in turquoise require the user to enter in a name or description (e.g. name of funder, type of cost) in text form.

It is **critical** that users **do not** enter any information or tamper with any other cells. If users need a space to make calculations they should either use a separate Excel sheet, or open up a new worksheet within the model they are working with. There are many cells on the right-hand side of the sheets that contain formulae; these are left visible for those who have an understanding of Excel and may want to make changes to the way in which the model calculates certain totals.

To be safe: only change information as per the above three points.

If the following sentence does not make sense to you, then you are best advised not to try to change any of the workings of the model: VLOOKUPs are used extensively with nested IF functions.

A2.4 The model

Within each model, there are eight worksheets. As mentioned above the two most important worksheets for users are the first two: PLAN and Worksheet. The remaining worksheets contain detailed assumptions about costs which can be updated by users. Processes that should be followed for this are described below.

A2.4.1 The PLAN sheet

This is the most important sheet and requires the most input from the user. It is made up of 10 sections; the first 3 relate to income information and the last 7 relate to various expenses. The steps to be followed in each section are described in the order that they appear.

The right-hand side of the sheet is decorated with the outputs of calculations that are used to convert the data entered by the user into the cash flow forecast. These are left visible to allow those who understand Excel to understand them, but must definitely be left alone by those who are not familiar with Excel.

A2.4.2 Children and fees

1. Start by choosing the month you wish the cash forecast to start from, using the drop-down menu. Users can choose between January and April.

2. Below the chosen month type in the year that the last month of the financial year will be in.

3. Immediately below, use the drop-down menu to indicate whether fees are charged monthly or weekly.

4. In the two-column table, enter in the number of children per age group in the left-hand column and the fee for that age group in the right-hand column (either weekly or monthly as noted above – the model then converts this into a monthly rate in the cash forecast). The child's age is the age he or she will be for the majority of the year.

5. On the right, show the variation in levels of fee payment expected for each month. The user can choose seven different levels of payment from 0 % through to 110% (fee recovery).

6. If the centre provides after-care for children then enter this in as additional revenue in section 3.

A2.4.3 Government subsidies

7. Enter in the number of children subsidised at the centre. For the smaller centres the model only has space for DSD subsidies. The user can set the value of the daily subsidy and number of days per month it is paid, but this should not be necessary.
8. The larger centres can choose the period over which WCED subsidies are calculated (either monthly or quarterly) and how frequently the subsidy is paid (quarterly or mid- and end-year). These options are provided as most centres submit quarterly claims forms and receive payment twice a year. If the WCED pays the subsidy twice a year, it will appear in the cash flow in June and December. Advanced users can scroll to the right and use the drop-down menus to change which months it is received in.

A2.4.4 Other income

9. Enter any additional sources of income to those that are listed in the above sections. The user must name the source in the top column and enter the income for each month. If there are more than three sources, lump some sources together in one column.

A2.4.5 Meals provided by the centre

10. Choose from the drop-down menus to show if the relevant meals is provided (Yes/No).
11. Enter in days per month that children are fed. This should be 22.
12. Indicate the meal option by typing in either '1' or '2'. The menus for the options are described in the menu sheet.
13. Use the drop-down menu to choose whether food costs move in sync with the payment of fees shown in section 1 (i.e. if the centre buys food based on expected attendance then choose 'yes').

The food costs are calculated using the DoH's guidelines on minimum nutrition levels and the cost of the relevant inputs at the same supermarkets most centres use. The costs of the food items are in the 'food inputs' sheet and the prices can be changed by the user. If costs are changed, please ensure they are entered in the correct units.

A2.4.6 Staff and salaries expenses

14. Enter in a salary for each staff type employed at the centre. If the centre does not employ a person of the type listed on the left then leave the cells to the right blank.
15. In the right-hand column, enter in the number of months the salary is paid. If the person receives a thirteenth cheque of the same amount as their normal salary enter 13 in this column. If the thirteenth cheque is half the usual salary then enter 12.5, if it is a third, then 12.3 or if double enter 14 etc.
16. Select which month the bonuses are paid. If no bonuses are paid then this can be ignored as it won't affect the cash forecast.

If a person is employed for a few months during the year on a casual basis then enter in the salary they are paid per month and the number of months they are paid this. Their salary will be averaged out over the twelve months of the year. If staff are not paid over December or paid only half their salary in December, this must be shown by entering in 11.5 or 11 in the right-hand column (months paid per year) and the effect of this will be averaged out per month (and not shown in December). Bonuses, however, will appear in the month chosen as specified above. The names of the different staff types can be changed without affecting the forecast.

Unfortunately, to make the forecast more accurate would require large tables that are likely to be both time-consuming and potentially confusing. If the cost of an employee has to be shown then use the table in section 9.

A2.4.7 Learning materials expenses

17. Estimate the percentage of the costs of establishing a centre with toys and learning materials that need to be replaced on an annual basis.
18. Choose the percentage that replacement costs are of establishment costs. This is the estimated cost of replacing non-consumable learning materials.
19. Choose from the drop-down menu the time period that applies to buying learning material (monthly or quarterly).

The total under 'consumables' is a yearly cost of consumable learning equipment based on the age groups and number of children in the centre (as entered in section 1). The establishment costs are based on costs of packages of toys distributed by Grassroots Trust, as detailed in the 'Learning Materials' sheet. The user can change the price of goods and the month the goods last in the above worksheet if the cost of consumables is seen as unrealistic/unfeasible (see more about this in the section on that worksheet below).

The 'consumables' amount becomes part of the cash flow and the total amount is divided across quarters or months as per choice of the user. The cost of replacements is added to this cash amount.

A2.4.8 Transport

20. Indicate the frequency of travel per category listed and the cost of the *return trip*.
21. The cost of outings should only be entered here if they do affect the cash flow of the centre (i.e. if children have to cover the cost of outings then it should not be shown here).
22. The user can identify an additional two types of trip if required.

All transport costs are calculated as a monthly total which appears monthly in the cash flow. Quarterly trips are averaged because these are seldom significant sums of money.

A2.4.9 Other running expenses – monthly

23. Enter in the monthly costs as listed in the section. The amount entered will appear in the cash flow on a monthly basis, so use average amounts.

24. Enter in the cost of electricity during the winter months (which are assumed to be May to September) for electricity. This amount must be entered in this cell even if electricity remains constant throughout the year.
25. Additional expenses that are not captured in the list can be entered. The text 'other monthly expense' should be overwritten as the expense item entered will show on the cash forecast.

A2.4.10 Other running expenses – annual

26. Enter in costs that are once-off annual costs in this section and use the drop-down menus to indicate which month the cost is incurred.
27. As for above, capture costs that are relevant.

A2.4.11 Establishment costs

28. The user can use a percentage of total establishment costs to estimate replacement costs.
29. The establishment costs are calculated using the number of children entered in section 1. The replacement cost is in effect a depreciation charge and the user can use 100 divided by the number of years an item should be depreciated over to get a cost of depreciation (if required).
30. The cost of replacement occurs in the cash flow at the same time the cost of purchasing learning materials is shown (either monthly or quarterly).

A2.4.12 The cash forecast

The cash forecast is a detailed monthly cash flow forecast and uses the assumptions in the sheets below and the date entered by the user. This sheet can be printed along with the PLAN sheet to provide a useful basis for planning expenditure during the year.

31. Users should enter the starting bank balance.
32. Users can delete superfluous rows to neaten the appearance of the cash forecast.

A2.4.13 The 'Food inputs' and 'Menu' sheets

These sheets are the work of Malibongwe Gwele and Linda Biersteker based on Department of Health recommended menus. All the food costs are based on prices at Shoprite in June 2008

Users can update the cost of foods in the 'Food Inputs' sheet and view the choice of menus in the 'Menus' sheet. These are very precise calculations and users of the models may need to factor in additional costs as centres can seldom buy with the same precision.

A2.4.14 The Lists sheet

The 'Lists' sheet is the model developer's little basket of goods. If you answered no to the question about VLOOKUPs above, this worksheet will be meaningless. It is left visible for those who know how to use functions and lists and make improvements to the model.

Do not change anything in this sheet as it contains a number of vital cogs.

A2.4.15 The 'Learning materials' sheet

The learning materials sheet uses actual costs of learning materials at Grassroots Trust in September 2008. The unit cost is shown in the B column, which can/should be updated when the model is used. The ratio, children, age (columns DEF) should be read as follows:

The number of units (ratio column) for a group of children (children column) in an age group.

Grassroots Trust recommends these ratios and also recommends the variety in the package as shown in this sheet. It is possible to identify 6 different types of puzzle of which a group of 30 children should get 5 each, and Grassroots Trust suggests they take 30 of an average price. However, the model calculates *a cost of a package* based on the number of children in the centre and the number of toys required that would encourage quality stimulation.

The costs are therefore not a per child cost, but based on what a group of children will need, and the cost calculation estimates a minimum cost for ensuring quality care. Therefore these costs will be higher per child at very small centres.

In column G, the length of time in months for consumable items is shown. The user can adjust these, but this is not recommended.

By using the number of children entered in the PLAN sheet, Column I shows the number of units that should be purchased, column J the cost of these units and Column K shows the annual cost of consumable materials.

Only columns B and G can be changed; do not adjust any of the other cells.

A2.4.16 The 'Kitchen and Other' sheet

This sheet has two main sections to it. The top section lists information on the cost of cutlery and a package of basic furniture, based on the number of children in the centre. The user can update the prices but the ratios provided should be left as they are.

The bottom section outlines costs of kitchen appliances, outdoor equipment, fencing and cooking equipment. This is a very simple list and the user should use their discretion to make it meet their needs. Actual prices, collected in September 2008, were used.

Note that the only aspects of costs identified in this sheet appear as replacement (and depreciation) costs in the cash flow. Budgeting to replace equipment in this way is an important financial management discipline.

A2.4.17 The 'Sum – Est Costs' sheet

The final sheet is a summary of establishment costs. This links to the PLAN sheet and is provided to enable users of the model to copy and paste this information.

Appendix 3
Research on ECD costing studies – a literature review

This section presents a brief literature review of South African and international costing studies of the kind undertaken in the present study.

A3.1 South African literature on costing centre-based care and funding ECD 0–4 years

There are, to the authors' knowledge, two published costing studies of ECD centre-based provisioning for children aged 0–4 years in South Africa. The first is a study conducted by the Early Learning Resources Unit (ELRU) (Erlank & Biersteker 2005) based on a sample of centres in the Western Cape, which was commissioned by the provincial DSD. The second, which is described by its authors as an updated estimation of the Erlank & Biersteker 2005 study is by Biersteker et al. (2008), and is also based on a sample of centres in the Western Cape. Neither study considered the initial start-up costs (infrastructure and equipment) or staff training costs in their costing of centre-based care. Whilst the earlier study focused on revenue sources and costs, the latter only considered the basic costs of running a centre-based programme.

The key points to note about the findings of these two costing studies in relation to the present study and its findings are the following:

- Both studies illustrated the significant role of the DSD subsidy as a source of income in most centres.
- They both found the costs of providing care to be far in excess of the revenue provided through the DSD subsidy funding. For example, the more recent costing found the per child per day cost to be R21.85 for children aged 0–3 and R18.80 for children aged 4–6. Assuming a subsidy value of R9 per child per day, this implies that for the younger age cohort the subsidy covers only 41 per cent of the costs of care, and 48 per cent for the older age cohort (Biersteker et al., 2008: 4).

The insufficiency of the subsidy to cover costs needs to be seen in the context of the reality that the majority of caregivers of children served by centres can only afford to pay very low fees (Biersteker & Streak, 2008). This implies that if centres are not able to tap into alternative sources of financial and other support, the quality of care is compromised; it also highlights the need to leverage additional funds – either from government and/or from the private sector via donors – to ensure the scaling up of high-quality services.

Aside from these two costing studies, a few other research studies have investigated the level of and governance arrangements for funding ECD 0–4 years in South Africa (see for example Biersteker, 2001; Streak & Norushe, 2008). The findings and recommendations of the present study need to be seen in the context of the concerns raised by these other studies about the issue of funding for ECD 0–4 years.

The Biersteker (2001) study focused on trying to track the level of government funding flowing to ECD centre-based (and other) services for children aged 0–4. Its method involved analysis of government budget statements. This study highlighted the problem of it being impossible to track, using the provincial government budget statements, the level of government support for ECD 0–4 years. This problem still exists today, and is a result of there not being a separate line-item for ECD 0–4 years in the relevant budget votes.

The Streak & Norushe (2008) study focused on understanding the inter-governmental fiscal arrangements governing funding for ECD 0–4 years, identifying the level of government funding flowing through the DSD & DoE for scaling up ECD in 2007/08, and identifying challenges constraining the size of budget allocations for scaling up ECD 0–4 years. The study focused on two provinces, namely the Western Cape and the Eastern Cape. Its method involved analysing existing policy documents and conducting interviews with government officials and other stakeholders in all three spheres of government. Concerns raised by this study included the following:

- The size of the provincial DSD budget for ECD 0–4 years in 2007/08 was very small relative to the amount needed to fulfil the mandate of expanding both the number of registered and funded centres, and improving quality of ECD service delivery at centres.
- Very little money was provided by the DSD in 2007/08 for non-centre-based programmes and for infrastructure development.
- Weak capacity in both the DSD and within centres that are not registered with the DSD is a primary factor constraining the rate at which non-registered centres are registered and the number of children receiving funding. This was found to include insufficient staff in provincial DSD offices relative to the need to monitor and register ECD centres, inadequate capacity to deal with tender management at provincial DoE level and insufficient financial management expertise in ECD centres.
- Many of the centres that are not registered require investment in infrastructure to meet the registration requirements, but there is no government source of revenue for this.
- The equitable share funding mechanism allows provinces to divert funds national government meant for ECD to other purposes.
- There is a need to clarify the relative roles of government and the non-government sector in meeting all the costs (including infrastructure costs) involved in ensuring scaling up of ECD 0–4 years to minimum quality, as laid out in the NIP and EPWP social sector plan policy framework..

A3.2 International literature on costing centre-based care and financing ECD 0–4 years

The purpose of this section is to frame the findings and recommendation of this study within those from the international literature on costing centre-based ECD provisioning and financing ECD. Towards this end, two recent literature reviews are used: Myers' (2007) review of the literature on costs and costing of ECD programmes, which is focused on centre-based provisioning; and Vargas-Barón's (2007) review of the international literature on early childhood finance.

Myers' (2007)[4] review of costs and costing of ECD includes coverage of: (i) the value of costing and its limitations; (ii) alternative methods that can be used in costing studies; (iii) findings from existing costing studies on the most significant income sources and expenditure items in centre-based programmes; and (iv) variations in costs across programmes and their sources. The findings with respect to each of these, which are useful to note in light of the purpose of this study, its method, findings and recommendations, are identified below.

A3.2.1 The value of costing (and its limitations)

> *Cost analysis of an ECCD programme has several purposes: to assess the financial feasibility of the program, to monitor the performance of centres, to assess the program's cost-effectiveness and to raise funds. (Interamerican Development Bank 1999 Tab 5.2; see footnote 3)*

> *Costs should be related to some measures of effectiveness or benefits or utility in order to know whether the cost, at whatever level, results in desired improvements a program seeks, in student's their families, communities and the society at large. (Myers, 2007: 3)*

Myers (2007 and in Interamerican Development Bank 1999) identifies four purposes/values associated with costing ECD provisioning, as indicated in the first quote above. The first, and arguably the most commonly thought of, is to facilitate the planning work of government officials and others involved in funding ECD programmes and expansion of service delivery within a given resource envelope. The second is to monitor whether and how funds allocated for scaling up ECD are being used, and thereby identify possible changes in technologies and methods that may generate cost savings as well as promote the democratic goals of transparency and accountability in the use of scarce public resources.

The third purpose is to justify investments by relating costs to outcomes or to benefits, and explore costs (and cost variations) in relation to benefits (benefit variations) as measured by child outcomes and other indicators. Myers raises and stresses the limitation of viewing costs (and cost variations) in isolation from information on the objectives of different programmes and measures of how achievement of objectives varies in relation to the variation in costs. In his call for measuring costs in relation to benefits, Myers points out that the international literature suggests the need for a broad approach to measuring benefits that goes beyond changes in child well-being (health, nutritional and psycho-social) outcomes, and includes effects on others such as the family, children's peers, the school system that children enter after the intervention, and the intervention

[4] A summary of the primary arguments developed in this literature review can be found in Interamerican Development Bank (IADB) (1999) *ECCD Guide: A toolkit for early childhood care and development.* Washington D.C. IADB. Tab 5. Calculating Costs and Potential Benefits. Downloadable from: http://www.iadb.org/sds/publication/publication_524_e.htm.

staff. The fourth purpose of costing is that keeping a record of costs, at the centre level, is key for leveraging funds (from government and from the private sector). This is the purpose highlighted in the findings and recommendations of this study.

A3.2.2Methods for estimating ECD programme costs at centre-based level

Myers (2007) identifies three alternative strategies or methods that researchers may use to estimate ECD programme costs:

- using budgets or expenditures found in official documents;
- constructing costs by investigating, through use of financial records and interviews with officials running programmes at centre level, the costs and expenditure of different programmes;
- constructing costs *a priori* or by modelling.

Whilst Myers acknowledges that each approach has value, he argues that the second approach, which is the one used in this study, generates the most realistic (and hence valuable) cost and revenue data. The top-down budget approach does not allow one to identify costs (due to poor recording of data) and if it does, it often leads to omission of significant inputs, such as the time of volunteers and other community inputs. The modelling approach is weak unless its assumptions are informed by an understanding of technologies, revenue sources, inputs and their costs gathered from the field. A weakness raised in relation to the second approach – which is the one used in this study – is that it is expensive (especially if the costing study is based on a large sample, which is preferable in light of the need to understand variations in costs, technologies and benefits across different settings).

A3.2.3Findings on the most significant income sources and expenditure items

Myers (2007, and in Interamerican Development Bank 1999 (see footnote 3)) argues that experience suggests that a combination of government funding (generated and provided via a range of mechanisms) and private-sector funding is vital for providing ECD services of a minimum quality, particularly to children and their families in poorly resourced areas. He stresses that in light of the limited ability of poor caregivers to pay fees, there is a need to leverage as much financial support as possible from the government and private donor community. Another important theme raised by Myers in relation to sources of funding is that in some countries and programmes, in-kind contributions from individuals and organisations in poor communities have played (and continue to play) a vital role. These include most notably food and labour time. With respect to the most significant expenditure items, Myers identifies food and salaries.

A3.2.4Variations in costs across programmes: Sources and implications

The international costing literature for ECD provisioning reveals, as expected, that the same model of programme can yield different costs. This is due to differences in the conditions under which it is implemented. Sources of variation in costs include: geographical location and, linked to this, proximity to markets for vital inputs; number of beneficiaries served and the economies of scale associated with this; skills/quality of personnel; in-kind and other contributions by the community.

Myers cautions that "one should not attempt direct comparisons of the costs of ECD across countries, systems and programs… [because there] are too many differences in: purposes and expected or real benefits, populations (age groups, enrolments, characteristics of participants), contexts (dispersed/concentrated, price structures and insertion into markets), technologies, components, hours of operation, in-kind contribution, etc. to allow comparison" (2007: 29).

Vargas-Barón's (2007) review of the literature on financing of ECD focuses on providing a general overview of major existing approaches to financing ECD and suggesting possible paths for the future. She makes some important points. First, in all countries, governance and funding of ECD is a challenge due to the fact that certain key departments (usually Health, Education and Social Development/Welfare) need to work together to fund and deliver an integrated package of services to children. Second, in the majority of countries, ECD has traditionally been seen as less of priority than primary and secondary schooling, with the result that the level of government funding has been relatively small.

Third, in the majority of countries it is expected that government be supported by the non-governmental sector (private agents/caregivers and donors in civil society) in funding ECD. Fourth, in country contexts where the majority of caregivers of children cannot afford to pay much for programmes at centre level as a result of poverty, government funding (for example through provision of a subsidy) and donor support are vital for ensuring access and quality, a point Myers also makes.

Fifth, it is vital that a country's umbrella plan or strategy developed to build and direct the delivery of an integrated set of programmes and services for ECD be linked to a budget and strategy for ensuring an adequate flow of funds for implementation. In her words, "Ideally, each country should establish a national ECD Policy or Policy Framework with a vision for child development, goals and objectives to achieve that vision, key strategies for attaining each of the objectives, programmes for each strategy, and a multi-year Financial Plan to carry out their programmes and achieve policy targets…Purposeful financial planning is essential" (Vargas-Barón, 2007: 7). The sixth point, also raised by Myers, and in this study, is that building financial and other management expertise in ECD programmes is vital for leveraging additional donor support for scaling up ECD:

> *Annual Financial Plans are required by most donors, and in the ECD area, many donors will not provide funding until they are convinced that programme directors will be fully accountable and will 'manage for results'. Donors increasingly are requiring a high degree of transparency in budgeting and accounting. To reduce the potential for corruption, separate cost centres are often required for different funding sources, thereby requiring extensive management systems as well as well-trained, and honest staff members. (Vargas-Barón 2007:33)*

Vargas-Barón highlights the need to raise the level of priority afforded to ECD in political budgetary processes as vital for leveraging additional government and non-governmental funds for ECD. Moreover, she points out that building monitoring and evaluation systems into ECD, and the evidence base for actual costs and benefits in a particular country are vital to support this agenda.

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