start strong
Advancing Children's Early Care & Education

Policy Brief

June 2014

The double dividend:

Childcare that's affordable and high quality

The fees that parents pay for early care and education services in Ireland are among the highest in the world. At the same time, the quality is variable, with high costs being no guarantee of high quality. Government action is needed to reduce costs to parents, and the quality of services must rise if children are to benefit.

How can we achieve the "double dividend" of affordability and high quality? Tax credits won't improve quality, and won't help the most disadvantaged. This policy brief recommends an approach based on public investment in services, with funding linked to quality.

High fees, variable quality

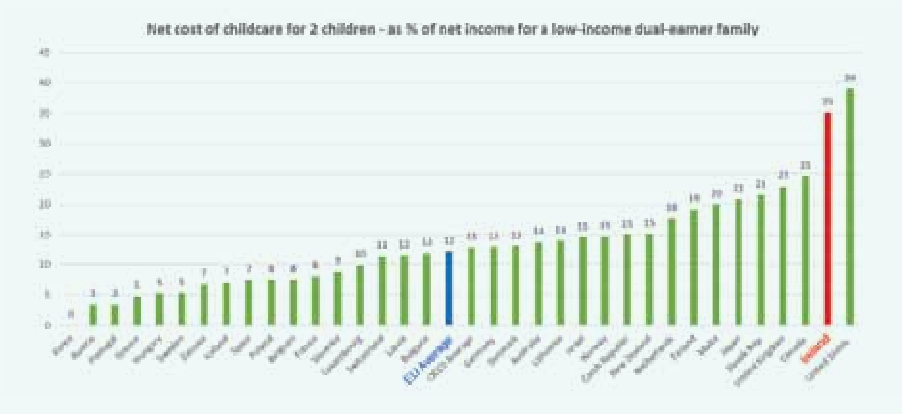
Quality matters because the evidence shows that children only benefit from early care and education services if the quality is high. Low quality services can be harmful to children.[1]

High quality services can't be delivered on the cheap. Those countries that achieve the double dividend of affordable, quality services do so through public investment – improving the quality while lowering the fees paid by parents.

Public investment in early care and education services in Ireland is low by international standards. As a result, according to the latest OECD figures (see chart on page 2), the fees paid by a low income, dual-earner family in Ireland with two children aged 2-3 take up 35% of the family's net income. For a lone-parent family on the average wage the fees amount to 40% of income. In contrast, average fees across the EU are between 10% and 13% of family income.

At the same time, quality here is variable. The Prime Time investigation in 2013, *A Breach of Trust*, showed examples of poor practice in some services – and the systemic risks that lay behind the poor practice. A key concern is low qualification levels (with just 12% of staff graduates, compared to the international benchmark of 60%), linked to low wages and poor working conditions for staff.

[1] OECD (2012) *Starting Strong III: A Quality Toolbox for Early Childhood Education and Care*, Paris: OECD, p.9.



Source: OECD (2014) Benefits and Wages: Statistics, http://www.oecd.org/els/benefitsandwagesstatistics.htm

Why look for a double dividend?

A large body of research published in recent years has highlighted the impact of early childhood experiences on outcomes for children, and the potential long-term return on investment in young children. There are three reasons why early care and education services need to be both high quality and affordable:

- **To promote child development.**
  The research evidence shows that from the age of 2-3 onwards children do better in high quality care and education services than if they remain at home.[2] All children benefit from high quality services, especially disadvantaged children, and part-time participation is sufficient. This evidence provides a strong rationale for extending the Free Pre-School Year to a second, earlier year, while improving the quality of provision.

- **To provide family support.**
  Vulnerable children in families experiencing high levels of disadvantage or with complex needs, including families with issues such as drug and alcohol addiction, benefit from early care and education services at a younger age, provided the services are of high quality.[3] Quality early care and education services can play an important role in family support when they work in collaboration with health and parenting supports, offering a gateway to early intervention.

- **To support families to exit poverty through employment.**
  Parental employment is an important means of protecting children against poverty. Because of the limited subsidy of early care and education in Ireland, many parents simply could not afford the market rate for places in early years services if they returned to work. So the lack of public subsidy keeps some families out of work – and living in poverty. In turn, growing up in poverty has a negative impact on child outcomes; research in the UK has found that by the age of 5, children from the poorest fifth of homes are already nearly a year behind children from middle-income households in developmental outcomes.[4]

How? Through subsidising places – not tax credits

Following an in-depth study of 20 countries' systems for early care and education, the OECD concluded that the most effective way to make early care and education services more affordable – while at the same time raising the quality of services – is through "supply-side" subsidies. That means directly subsidising places in services so that fees are lower or fully covered (as already happens in schools and in the Free Pre-School Year).

The OECD concluded that tax credits – or other "consumer subsidies" – are less effective. The reason is that supply-side subsidies give governments more "steering capacity" over what happens in services than is offered by tax credits.

"…The OECD reviews suggest that direct public funding of services brings, in the majority of countries reviewed, more effective control, advantages of scale, better national quality, more effective training for educators and a higher degree of equity in access and participation than consumer subsidy models." [5]

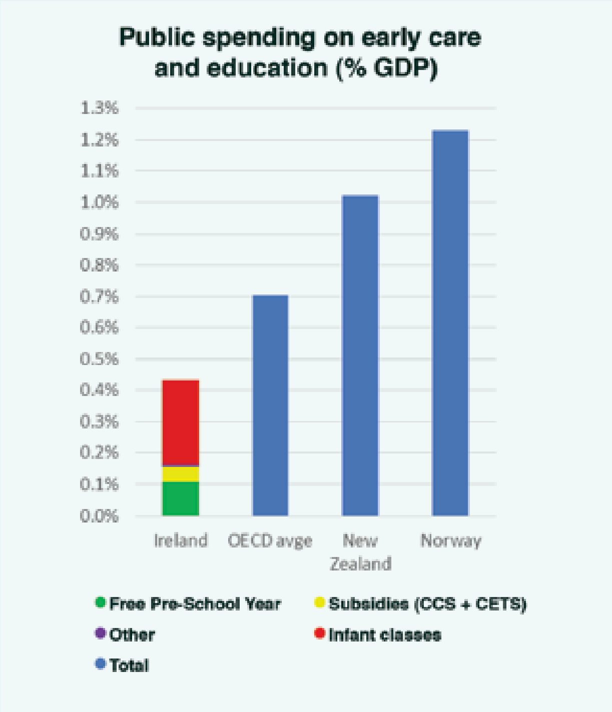
Tax credits also fail to help those families with the greatest need, whose incomes are below the tax threshold.

Public investment in Ireland's young children

The high cost of early care and education services to parents in Ireland reflects the lack of public investment. Services do not cost more to deliver here than elsewhere. Instead, the reason parents pay so much in Ireland is that there is so little public subsidy. In fact, the cost of delivering services may need to rise if quality is to rise, but parents simply cannot pay the additional cost.

According to the OECD (see chart), Ireland invests only 0.4% GDP annually in early care and education services, compared to the OECD average of 0.7% GDP. Internationally, 1% GDP is regarded as a benchmark for the level of investment required for a high-quality system of early care and education – a level achieved in New Zealand and the Nordic countries.

In fact, the picture in Ireland is worse than these figures suggest. The OECD data relate to all services for 0-6 year olds, including within schools. Two-thirds of early years spending in Ireland is in the infant classes of primary schools. Ireland invests less than 0.2% GDP at pre-school level, mostly through the Free Pre-School Year.



Source: OECD Family Database (2014).

The Free Pre-School Year

The Free Pre-School Year was a milestone in the development of Ireland's early care and education. The high uptake (95%) indicates widespread support for its universal approach.

But the scheme has limitations. It only lasts 38 weeks, and some children do not start until they are 4 years old. Also, the level of funding makes it hard for services to offer high quality, with staff on low wages, often laid off during the summer months, and with little capacity to cope with the additional demands of children with special needs or language difficulties.

When the Free Pre-School Year was first introduced in 2010, the Government cut €320 million from the early years budget. If that sum were reinvested in early care and education services, investment would come near the OECD average.

Other subsidies

A proportion of low-income families receive some assistance with fees though the Community Childcare Subvention (CCS). A recent report by Indecon Economic Consultants rightly points out that a major weakness of the CCS is that many families who could be eligible for subsidised places cannot access them.[6] The scheme is currently restricted to centre-based community services and is administered on an annual basis. Furthermore, the level of subsidy is at most €95 per week for a full-time place, and parents have to pay the difference – which is beyond the means of many low-income families.

In addition, the Childcare Employment and Training Support scheme (CETS) subsidises a limited number of places where the main carer of a child is on an eligible training course or employment scheme.

Parental leave and work-life balance

Combining work with the care of young children is a challenge for many families. Part of the solution is affordable, high quality early care and education services. But families also need supportive work-life balance policies. And they need a longer period of paid leave, so that a parent can remain at home with a child for at least the critical first 12 months in a child's life.

[2] Melhuish, E. (2004) *A Literature Review of the Impact of Early Years Provision on Young Children,* London: National Audit Office; K. Sylva et al. (2010) *Early Childhood Matters: Evidence from the Effective Pre-School and Primary Education Project.* Oxford: Routledge.

[3] Melhuish, E. (2004) op. cit.

[4] Economic and Social Research Council (2012) Evidence Briefing: *Child Poverty Casts a Long Shadow Over Social Mobility.*

[5] OECD (2006) *Starting Strong II; Early Childhood Education and Care,* Paris: OECD, p.114.

[6] Indecon (2013) *Supporting Working Families – Releasing a Brake on Economic Growth,* Report for Donegal County Childcare Committee, PP.1 and 33.

Recommendations

Below we set out recommendations for how public investment in early care and education can secure a "double dividend": making places affordable while improving quality to support children's development.

Link public money to quality

To achieve the double dividend of affordability and quality, public funding should be closely tied to the quality of services. Funding must be sufficient to deliver high quality services. And funding should be used as a lever to improve quality, with higher capitation levels where quality is higher, and withdrawal of funding where standards are not met.

- Reduce costs to parents through extending subsidised places in services, making public funding conditional on quality.
- Merge funding schemes (CCS, CETS, Free Pre-School Year) into a single National Early Care and Education Access Fund, with the same quality requirements across the schemes, regardless of the age of the child.
- Develop a financial model that provides a transparent basis for levels of public funding. Funding should include non-contact time, to provide for continuing professional development for staff, for family support work, and for administration.

Services for all children

Research shows that high quality early care and education benefits all children from the age of 2-3 onwards, and that the benefits are greatest for children from disadvantaged backgrounds. So high quality services should be universal – affordable and accessible to all children – with a Second Free Pre-School Year. Children and families with additional needs require additional supports, which can be provided within universal pre-school provision.

- Retain the Pre-School Year as universal and free. Continue improving quality, putting in place the building blocks for a Second Free Pre-School Year.
- Provide higher rates of funding when a service needs additional support for a child with special needs or language difficulties.
- Provide higher rates of funding to services in disadvantaged communities (like the DEIS initiative in schools).

Lower costs for families

The high fees parents pay for early care and education services are a barrier to children's participation and to parental employment, contributing to child poverty. Families with low incomes need additional support to help them get out of poverty.

- Make subsidised places available in all areas of the country, through extending CCS to privately run early years services.
- To facilitate access in rural areas, and for families who prefer home settings, open up funding schemes to registered childminders who meet quality standards.
- Change administrative procedures so that families can take up subsidised places at any time of the year.
- To help struggling families, introduce a new 100% subsidy for families with high identified levels of need, with access on the basis of referral, and linked to the Child and Family Agency's Local Area Pathways.

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Start Strong is a coalition of organisations and individuals committed to advancing high quality care and education for all young children in Ireland.

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