



Study on the Economics of Childcare in Ireland

December 1998

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behalf of the Partnership 2000 Expert Working Group on Childcare

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Executive Summary

Introduction

In July 1997, the Government and the social partners established, in the context of Partnership 2000, an Expert Working Group to draw up a national strategy for the development of the childcare sector. The purpose of the strategy as set out in Partnership 2000 is to integrate 'the different strands of the current arrangements for the development and delivery of childcare and early educational services'. The Expert Working Group, which is chaired by the Department of Justice, Equality and Law Reform, has set up seven sub-groups dealing with various aspects of childcare. It is envisaged that the work of the Expert Group will be completed by end 1998.

Area Development Management Limited (ADM) has the role of advising the Department of Justice, Equality and Law Reform on the implementation of the process and providing technical and operational support to the Department. As a result of the deliberations of the Sub-Groups, a need emerged to address the economic issues relating to childcare. In consequence, ADM, on behalf of the Department, has commissioned this study.

The overall aim of the study as set out in the terms of reference was to evaluate the following key aspects of childcare in Ireland:

- the current and future level of need for childcare services;
- the current and future level of demand for childcare services;
- the current and likely future level of supply of childcare services;
- the job potential of the childcare sector;
- the economic cost of childcare provision; and
- the benefits of childcare.

This executive summary provides an overview of the main findings of the study, presents the economic rationale for state intervention in the childcare sector and outlines our proposals for the development of a comprehensive childcare strategy for Ireland.

Current Demand for Childcare Services

It is estimated that 146,000 or 17 per cent of all children between the ages of 0 and 9 avail of paid childcare. Take-up of paid childcare varies with the employment status of the mother: only 16 per cent of children with mothers on home duties avail of childcare, as compared to 58 per cent of children of mothers in full-time work. Children of part-time working mothers also have a relatively high tendency (39 per cent) to be in paid care.

Among households with youngest child aged 0-4, 62 per cent used no paid childcare, while among households with youngest child aged 5-9, 91 per cent used no paid childcare. This reflects in part the high proportion of women outside the labour force. However, even among mothers with children aged 0-4 who were in full-time jobs, 22 per cent made no use of paid childcare.

The most widely used form of childcare was a formal arrangement of the kind represented by crèches, nurseries, kindergartens or other kinds of pre-schooling. Usage of this form of childcare was largely confined to households with the youngest child aged 0-4 years.

The paid minder who cares for the child in the minder's home is the second most commonly used form of childcare overall (used by 14 per cent of mothers with youngest child aged 0-4 and 3 per cent of mothers with youngest child aged 5-9). However, unlike crèches and nurseries, usage of this kind of childcare scarcely occurs among mothers in home duties: it is largely confined to mothers with paid jobs, and among these it is the most commonly used childcare arrangement.

The minder who comes into the child's home is the third most widely used form of paid childcare, though the proportions involved are small (4 per cent of mothers with youngest child aged 0-4 and 5 per cent of mothers with youngest child aged 5-9). As with the minder in the minder's home, this form of childcare was almost exclusively used by mothers with paid jobs.

Generally speaking, as might be anticipated, households which have higher socio-economic status, higher incomes and live in urban areas are more likely to use paid childcare.

On average, childcare prices are in the range of £56 to £71 per week for full time care. Ireland has amongst the highest childcare costs (as a proportion of average earnings) in the European Union, exceeded only by the UK and Greece. Average costs in Ireland are 20 per cent of average earnings, whilst the mean for other European countries is eight per cent.

Future Demand for Childcare Services

In 1996, there were 859,424 children aged 0-14. The number of children fell in the early 1990s, especially in the older age groups. With the slowing down in rate of decline in fertility, the downward trend is easing off and the present projection is that up to 2011 there will be little overall change in the number of children compared to the levels of the mid-1990s.

A slight increase in the number of mothers is projected for the year 2011. The greater numbers of mothers will counterbalance the effect of lower fertility on the number of children.

The total labour force in 2011 is likely to be of the order of 1,899,000, an increase of almost 25 per cent (374,000) over the 1997 level of 1,525,000. A large share of this increase is projected to come from growth in the number of women, and especially of married women, in the labour force. The female labour force is projected to grow by 218,000 (from 589,000 in 1997 to 807,000 in 2011), an increase of 37 per cent, accounting for 58 per cent of the total increase.

On the basis of the increased participation of married women and mothers, it is predicted that, at a minimum, the number of children in childcare will increase by some 40,000 or 27 percent from its current level of 146,000, despite the fact that the numbers of children will rise only slightly.

Predictions are sensitive to the level of full-time as opposed to part-time working. A halving of the ratio of part-time to full-time working mothers could increase the demand for childcare by another 14,000 to 52,000. However, the greatest sensitivity relates to the take-up rate among women on home duties. If this doubles, then demand for childcare rises by another 43,000 to 220,000 places.

This indicates that under a set of reasonable assumptions, the demand for childcare could increase by between 25 and 50 per cent over the period to the year 2011.

If current childcare choices persist, then all of the increase in demand (52,000 places) will be for other than group care arrangements. This reflects the fact that, at present, those at work tend to use childminders, while those on home duties are usually availing of playgroup facilities. This situation is likely to alter rapidly. Given the tightening labour market such an increase in supply of childminders is unlikely to be forthcoming, as potential childminders will find alternative employment. Accordingly, there will be significant additional demand for use of group based facilities.

Supply of Childcare Services

Childcare services are provided by some 3,000 group based providers in the formal sector and a minimum of 30,000 childminders. The formal sector, which provides services to a broad range of socio-economic groups, is not expanding despite a substantial increase in demand. The sector suffers from staffing problems and is finding it difficult to address the requirements of the 1996 Child Care Regulations. As a result, there is a substantial shortage of places, particularly for babies and part-time care. Despite low wages for workers in the sector, profitability is low as there is a constraint on the prices which parents are willing to pay for childcare. There is concern that, rather than increasing, the supply of childcare services will diminish in the immediate future.

There is evidence of market failure in that profitability is very low and is insufficient to generate the capital required to grow the industry. Many providers would not be seen by the banking system as good risks because of low profitability, their small scale, and failure of the banking system to recognise childcare as commercial business activity. There is little potential for raising prices to improve profitability, as the Irish tax system so reduces the married woman's net earnings that higher prices cannot be afforded. In these circumstances, there is a strong case for State intervention on a temporary basis to support the development of childcare as a viable industry.

The market for childcare services is set to grow from an estimated £260m in 1996 to £450m in the year 2011.

State and EU Support for Childcare in Ireland

The lack of a central official body monitoring the funding and supply of childcare services makes it impossible to offer anything other than a crude estimate of the level of State expenditure. However, it is estimated that approximately £20 million of State and EU funds are currently being spent annually on childcare provision. This expenditure is targeted largely at those children in need or in disadvantaged circumstances.

This level of expenditure is extremely low by international standards. It is significant that much of the expenditure on childcare arises as a by-product of other activities and does not have improvement in childcare provision as an objective.

Childcare and Child Development

Quality childcare has a beneficial impact on development of children and especially on disadvantaged children. This impact is enhanced where the childcare provision includes an element of early education. The benefits to children persist through to adulthood and are garnered by both the child, the State and society as a whole. There is emerging evidence that the benefit to the State in terms of reduced criminality is large.

Provision of *high quality* childcare is crucial to obtaining these benefits - they are unlikely to be obtained if provision is of low quality. High quality childcare is characterised in part by several observable factors - high adult : child ratios, small group sizes, well remunerated and trained caregivers.

The State already intervenes to regulate the supply of childcare in terms of quality, and to support the take-up of childcare services on a selected basis. There is a strong case for a more generalised system of State support for childcare services.

The need for State intervention arises because parents may not appreciate or take account of the full benefits to children and to society as a whole in reaching decisions on childcare i.e. there is a

market failure. This market failure will tend to result in parents demanding lower quality childcare than would be optimum. This will be true of parents generally, but particularly true of parents with low incomes. The loss to the State arising from market failure is greater in respect of children from the disadvantaged segment of society. Thus, there are strong economic, as well as social, reasons for supporting childcare for this group.

Support from the State should be focused on ensuring that parents have access to *high quality* childcare provision which incorporates a strong element of early education. State support should extend to children generally, but there is a need for a particular focus on the less advantaged.

Childcare and the Labour Force Participation of Women

The dramatic success of the Irish economy during the 1990s has been attributed to many factors, not the least of which is the importance of the role of the labour force. Demographic change and increases in labour market participation by women, along with improvements in human capital accumulation, have had profound effects on the labour market and the potential for long term economic growth in Ireland.

Despite the substantial increase in the number of women participating in the labour market during the past two decades, barriers still exist which hinder even greater female participation. The most significant of these being the cost of childcare and its interaction with the income tax system as it affects wives.

This means that where a married woman takes up work, net household income may fall when childcare costs are taken into account. This occurs across a significant range of female earnings, irrespective of the husband's earnings. Due to recent changes in the means test, lone parents on social welfare do not face a similar disincentive.

Skill and labour shortages are emerging in the economy which could be mitigated by greater female participation in the labour force; even if these shortages were not present greater participation on the part of women would yield benefits in terms of the more flexible working of the labour market.

There is evidence that childcare supports encourage mothers to remain in the labour market and extend their hours of work, thus reducing the extent to which investment already made in their education and training, their human capital, is lost to the economy. In the short term, particularly, the availability of adequate childcare can help to prevent or reduce skill shortages in particular areas.

The supply of childcare services is not very responsive to demand. This is due in part to the fact that these services are not provided on a business footing.

Childcare Policies and the Economy

The focus of this study is on an examination of the economic impacts of childcare provision and the implications of such impacts for the development of childcare policies. This is in some ways a partial perspective as childcare services also have a major social role to play. Having said this, it is clear from analyses undertaken abroad (and reviewed above) that interventions to support childcare have a positive effect on female labour force participation. Interventions with a strong child development focus that are targeted on the disadvantaged sectors of the community also have substantial economic benefits, by ultimately reducing the cost of combating the social ills which arise from early school leaving, unemployment and crime.

The economic case for State intervention in childcare provision therefore revolves around a number of realities:

- skill and labour shortages are emerging in the economy which could be mitigated by greater female participation in the labour force; even if these shortages were not present greater participation on the part of women would yield benefits in terms of the more flexible working of the labour market;
- childcare costs are a significant barrier to the labour force participation of women; this is true not only where their spouse is unemployed but also where he is employed; the disincentive operates almost irrespective of the earnings of the spouse and across a significant range of the woman's potential earnings;
- there is evidence that childcare supports encourage mothers to remain in the labour market and extend their hours of work, thus reducing the extent to which investment already made in their education and training, their human capital, is lost to the economy; in the short term, particularly, the availability of adequate childcare can help to prevent or reduce skill shortages in particular areas;
- high quality childcare will have a positive benefit on the child's development especially if it contains a significant element of early education, thus reducing later costs to the state arising from early school leaving, delinquency, and unemployment related to lack of educational qualifications;
- apart from reasons associated with labour force development, the need for State intervention arises because parents, in reaching decisions on childcare, may not take into account the full benefits to children of *quality* childcare; this will tend to result in parents demanding lower quality childcare than would be optimum; this will be particularly true of parents with low incomes who cannot afford to pay for quality; this suggests a particular focus on supporting childcare for the less advantaged;
- support for childcare is also warranted as an intervention measure aimed at children at risk; intervention of this nature has substantial economic benefits arising from reduced risk of unemployment and crime in later life;
- there is evidence of market failure on the supply side: the increase in demand arising particularly from an increase in female labour force participation, is not resulting in an increase in supply in the formal, regulated sector due to a variety of reasons - costs of expansion, inadequate return on investment, unfair competition from the black economy, and the increasing problem of retaining qualified labour; and
- good quality childcare provision, involving early education, is more likely to develop in the formal sector, where providers can attain sufficient scale to be in a position to provide good facilities and qualified staff.

The Development of the Childcare Sector

These realities suggest that State policies (based on economic considerations) to support the development of the childcare sector should be put in place to:

- ease the transition to work for mothers and to encourage mothers at all levels to remain in the labour force and that such support should be available even where the family's income is relatively high ;
- encourage mothers to purchase *high quality* childcare, thus maximising the positive effects on the development of children, which will ultimately impose economic benefits on society; and

- provide particular and targeted support for low income households to increase their access to quality childcare.

Support for the development of the childcare sector should, therefore, be built around the following types of measures:

- measures aimed at increasing affordability and choice for parents and, simultaneously, at improving the quality of available supply, thus necessitating both demand and supply side actions;
- measures that will be of sufficient scale to impact substantially on the incentive to work and on the incentive to supply quality childcare services;
- measures that will support the labour force participation of mothers, even where the household income is relatively high, but with higher levels of support going to those on low incomes in order to ease their transition into the labour market and to support child development objectives;
- measures that address identified market failures;
- measures that are clearly and directly linked to the purchase of childcare; and,
- measures that are aimed at developing a strong, formalised and regulated sector that can provide quality care at affordable prices, as well as providing opportunities for the development of sustainable businesses and job opportunities.

Introduction of a National Childcare Strategy

We recommend the adoption of a 7 year childcare strategy in Ireland, with the following long-term objectives:

- opportunity for all children to access quality, regulated childcare services;
- opportunity for parents to exercise increased choice in the way that their children are cared for within their pre-school years;
- opportunity for low income families to access early childhood development services;
- removal of lack of affordable quality childcare as a constraint on women's participation in the labour market;
- development of a high quality, affordable and flexible childcare sector in Ireland which provides satisfactory job and business opportunities for those involved; and;
- development of the sector in partnership between the State, social partners, local communities and parents, within a child-centred approach.

While this is an ambitious strategy, we believe that it can be achieved and will result in long-term benefits to the economy and to society, and will play a vital role in supporting wider national objectives in relation to gender equality, social exclusion and local and community development.

However, we accept that this strategy cannot be put in place all at once. The resources to do so are unlikely to be forthcoming and, even if they were, the capacity to increase the supply of high quality childcare by several orders of magnitude in a very short space of time is lacking.

In framing our proposals, we have, therefore taken the view that the measures adopted, while being significant, will have to be phased; that they should, where possible, build on initiatives already taken and of proven worth; that State intervention to support childcare from an economic viewpoint should address identified market failures and should be directly targeted at the purchase of childcare places; and that they should be developed in such a way as to ensure a higher allocation of resources to disadvantaged children.

Recommended Programme of Action

To begin to implement this strategy we consider that the State should adopt the following range of measures:

Demand Side Measures

We recommend the introduction of a comprehensive package of demand side measures that reflect the economic realities outlined above and which will provide the range of supports required to have a significant impact on the economy. These are:

- tax relief on childcare costs;
- increased FIS entitlement for low income two worker families;
- subsidies for the purchase of places in childcare facilities for low income families; and
- abolition of benefit in kind treatment of subsidised childcare.

In our view, it is only through providing this range of measures that the objectives outlined above can be achieved, particularly in relation to reducing the costs of childcare for families at all income levels in a targeted, effective and equitable way.

In all cases, these reliefs would be granted solely in respect of childcare services purchased from providers who have notified themselves as childcare providers to the relevant authorities and whose tax and social welfare affairs are in order. (We would also recommend that regulation be extended to the total childcare and childminding sector as a means of ensuring quality within the sector as a whole, and of maximising child development objectives).

Supply Side Measures

A comprehensive package of supply side measures are also recommended aimed at increasing the supply of high quality providers, at encouraging all providers to move into the formal sector and at improving profitability and employee remuneration within the sector. The recommended measures are:

- tax relief for individual childminders;
- tax relief for childcare companies;
- tax relief for employers supporting childcare provision or purchase;
- expansion of the Equal Opportunities Childcare Programme;
- establishment of a programme of support to assist providers of childcare; and;
- amendment of planning provisions to relax existing restrictions on the siting of childcare facilities.

Full details of these recommendations are provided in Section 8 of the report.

Overall Costs of Recommended Programme of Measures

It is estimated that the annual cost of these priority measures would not exceed £70m in the first full year of their operation. In practice, costs might be considerably less due to phased start-up and take-up of measures.

Costs are likely to grow over time as schemes are expanded and more parents and providers avail of the reliefs offered. Expenditure of up to £150m per annum could arise, if the measures prove successful.

Monitoring and Evaluation

Given the range of recommendations made in this report, and the limited knowledge we have at the present time of their likely impact on the objectives outlined for the childcare sector, particularly in an Irish context, we consider that it is essential that each of these recommendations, be monitored, when introduced and, after a certain time, be fully evaluated. It will be necessary to assess a number of different expected impacts; the impact on labour force participation of women, on child development, and on the development of a strong, formal childcare sector in Ireland.

Future Research

As this study has highlighted, very little research has been carried out to date in Ireland, not only in relation to childcare but also on the issues affecting the participation of mothers in the labour market. Given the increased importance of mothers in the Irish labour force, we consider that a programme of research and collection of relevant statistics in this area should be undertaken.

Concluding Comment

The potential to develop a strong childcare business sector now exists in Ireland. This will lead to increasing job opportunities for young people and business opportunities for entrepreneurs. It will also support women's re-entry and retention in the labour market as well as having significant child development impact, particularly for those families that are least able to pay for such a service. However, our research indicates that if this sector is to develop in a way that offers adequate returns to the investor, to the employees and to the parents and children involved, the State must intervene to make quality childcare affordable and accessible.