Ibec
For Irish Business

Labour market participation of women

October 2016

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Executive Summary

Female labour market participation is much lower than male in Ireland as in many other countries. The reasons for the difference are in part rooted in cultural and social norms but also reflect social and economic challenges and incentives.

This topic is receiving a lot of attention in part due to the global challenges of ageing populations which will put downward pressure on labour supply, material living standards and public finances; and skills shortages which will negatively impact growth and competitiveness. Increasing female labour market participation could help mitigate some of these challenges and also ensure we are tapping into the potential of our entire labour force.

A myriad of issues can influence an individual's decision to participate in part-time or full-time employment but two issues, less about choice and more about the unintended consequences of childcare and personal tax policy decisions, result in penalties which hamper females with children in the labour market. While society has moved away from a male breadwinner, linear career model of working life it would appear that not all economic models have adjusted. This paper focuses on the consequences of economic and social conditions in Ireland, the availability of affordable, quality childcare and the personal tax treatment of married women with children, to demonstrate the impact and the likely results of policy reform. The main conclusions can be summarised as follows:

- Maternal employment rates are lower than for women as a whole and many would like to work or work more but are constrained by family responsibilities;
- Entry cost effects from childcare and tax burdens reduce the net reward from employment with childcare costs representing the largest additional costs associated with taking up employment thus acting as a disincentive to work especially for second earners in dual earning couples;
- Ireland has a relatively low level State funding for childcare but the second highest direct payments to parents of any OECD country because of child benefit;
- Child benefit reduces female labour market participation but affordable and available childcare services increase it;
- A more neutral tax treatment of second earners in a family compared with single earners yields increased female participation;
- Forced absence from the labour market for females can also incur a "motherhood penalty" which can contribute to a gender pay gap and less gender balance in decision-making roles.

While increases in childcare subsidies and changes to tax rates will impose a net budgetary cost they are partially self-financing due to the resulting increase in female labour market participation also leading to higher revenues. Failure to urgently address this situation will increase the gender balance issues facing women in business, deprive business of the financial, innovation and problem-solving benefits of diverse teams, cost the exchequer in terms of benefits payments and lost tax revenue, put families at risk of poverty and lead to stifling of Ireland's long-term economic competitiveness and growth.

Recommendations

Recommendation 1:

Child benefit payments should be means tested so that they remain the same for low income households but taper off gradually for higher income households (from €80,000). This has the potential to save the Government €200- €500 million depending on the cut in point for tapering which could be redirected into services (Recommendation 3, 4, 7).

Recommendation 2:

Ibec recommends that greater flexibility is enabled within child: adult ratios whereby more highly qualified staff (Level 7 and above) can respond to higher numbers of children. In addition to the higher capitation grants this would provide a greater incentive for providers to encourage workers to obtain these qualifications.

Recommendation 3:

Ibec recommends the extension of the Early Childhood Care and Education scheme to include children aged 1 to 3 years and to increase the duration to 4 hours. This would cost roughly €525 million assuming that 95% took it up.

Recommendation 4:

Ibec recommends the implementation of a formal out-of-school hours care system to address the needs of working parents and the atypical work day.

Recommendation 5:

Ensure that out-of-school hours services incorporate a holistic approach to child social and cognitive development through the use of mixed methods within out-of-school care. Options may include sports, drama, homework clubs, technology and play.

Recommendation 6:

Provision of out-of-school hours services in existing school buildings, making greater use of the facilities available out of hours.

Recommendation 7:

Ibec recommends the continued professionalisation of the early years' service.

Recommendation 8:

Inspections should come under one umbrella whereby a team do a full audit on a childcare/early education service and offer them a quality mark for 2 years. This would enable redirection of money from inspections back into services such as CPD and mentoring while also reducing the duplication of work for carers and teachers in such establishments. This may require a statutory instrument.

Recommendation 9:

Provide an integrated approach to accountability for individual providers. DCYA, DES and Túsla need to develop an integrated framework for communicating and responding to matters identified in the various compliance, evaluation and inspection systems. This should invoke support from the Better Start mentoring service to enable services to correct issues and reach compliance.

Recommendation 10:

Explore the feasibility and possible benefits of a tax saver childcare voucher model to encourage the retention of parent in the labour market.

Recommendation 11:

The income tax system should be broad based with top marginal rates (inclusive of USC and PRSI) of no more than 45%.

Recommendation 12:

50% of workers' already pay tax at the 49.5% marginal rate or above. The entry point to the top marginal rate should be linked to above the average wage (currently €35,700) to avoid fiscal drag as wages increase.

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Introduction

The labour market in Ireland has contributed strongly to the economic growth of the country over the last number of years. However, challenges facing Irish and global economies alike require further attention to be given to our labour market participation rates, in particular those of females. While female labour force participation in Ireland has more than doubled since the early 1980's, gender gaps remain substantial and labour markets and access to economic opportunities across the world remain divided along gender lines.

Despite the fact that women make up over half the world's population, they are not fulfilling their potential in measured economic activity, growth and competitiveness, with serious macroeconomic consequences. In Europe gender gaps in the labour market are attributable for an estimated 10% GDP per capita loss[1] while Goldman Sachs calculated that closing the gap between male and female employment rates would boost Eurozone GDP by as much as 13%[2]. Increasing the female labour market participation rate is essential to fulfilling economic potential and competitiveness in Ireland, while in addition may mitigate the effects of the declining working age population, addressing the global skills demand and meeting the Europe 2020 participation rate target (75% of the population aged 20-64 employed by 2020).

1 http://ec.europa.eu/europe2020/pdf/themes/2015/labour_market_participation_women_20151126.pdf
2 The Economist (2011). *Closing the gap*. http://www.economist.com/node/21539928

Section 1
Why is this of interest?

This issue, while not new, is one that may have real implications for Ireland's continued competitiveness and growth. Recent reports from the IMF and the National Competitiveness Council[3] reiterated concerns regarding female labour market participation in particular. The macroeconomic gains and benefits of greater female labour market participation can be examined through a number of lenses including general business benefits, the impact on the ageing demographic, and the skills and talent gap challenges.

Business benefits

Studies show strong and measurable benefits to gender balance which include:

- **An impact on the bottom line** - Gender balance has been proven to increase profits, return on sales, return on equity, innovation and problem solving. In private sector research on average companies with 3 or more women in top management or leadership functions significantly outperform their sector by 36%. The complementary skills and styles of men and women foster the creativity that delivers these results.

- **Better positioned to serve consumer markets** - Women are the majority of consumers and end-users in an ever-widening array of sectors (globally 80% of consumer goods purchasing decisions are made by women this includes cars, real estate and technology purchases). They represent a growth market more than twice as big as China and India combined yet, despite this, the majority of women feel misunderstood by marketers. Social media is also crucial for driving brand, product and services and the social media world is led by women – 62% of women participate in sharing on Facebook while 8 out of 10 Twitter users who have hit the 10 million followers mark are female.

- **Strong corporate governance and greater risk awareness** – Gender diversity in decision-making roles has been strongly connected with greater corporate governance through the wider range of perspectives and experience.[4]

These benefits cannot be attributed to the level of female participation alone but rather the higher quality outcomes that emerge when there is diversity of thought within the business. Alongside these general business benefits, global challenges to the competitiveness and economic prosperity of countries including the conjunction of factors such as the world-wide declining birth rate and ageing population and a "war for talent" based on an increase in the demand for skills, could also be somewhat addressed through an increase in female labour market participation.

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3 http://www.competitiveness.ie/Publications/2016/ICS-2016.pdf
4 https://www.oecd.org/daf/ca/OECD-Women-Leadership-2016-Report.pdf; *'Closing the Gender Gap: Act Now', OECD publication, December 2012.*

Ageing demographic

Globally we are experiencing a decreasing birth rate and ageing populations. While the age of the Irish population is increasing (the number of 65 year-olds is set to increase by over 50% by 2046[5]), it has a median of 36 years which remains well below the average in the EU of 42.2 years. However the increase of older people in society has significant implications for the pool of skilled labour in the workforce as well as the sustainability and future funding of Ireland's pension, social welfare and healthcare systems. The rising dependency ratio increases the importance of increasing labour force participation and employment. Europe will go from having four people working for every retiree currently to a ratio of 2:1, assuming current retirement practices continue.[6]

Skills shortages

At a time when organisations are facing into a new "war for talent" which will see advanced economies experiencing a shortfall of 40 million educated workers by 2020[7], employers face a significant recruitment issue while Ireland fails to harness our full economic potential. Due to strong employment growth, the Irish market is already experiencing skills shortages in the medium term in a range of sectors primarily in professional occupations across ICT, engineering, science, health, business and to a lesser degree construction.

An increase in female participation could help boost growth and mitigate the downward pressure on labour supply and the impact of a shrinking workforce and skills shortage. With the shrinking working age population and skills demands, the attraction and retention of skilled employees will have to take into account the periods of leave they may experience. Failure to harness the labour market potential of females has a further cost to the exchequer in terms of benefit payments and the loss of tax revenues.

While evidence from the OECD shows that on average, the projected gain from full convergence in participation rates is an increase of 12.4 % in GDP per capita by 2030 in EU-21[8], a UK study[9] on this point calculated that if a one percent increase in maternal employment occurred there would be a net gain to the exchequer of £200 million per year. Addressing this challenge could also contribute to reaching the European target of a participation rate of 75% of the population between 20 and 64 by 2020.

5 http://www.cso.ie/en/media/csoie/releasespublications/documents/population/2013/poplabfor2016_2046.pdf
6 http://europa.eu/epc/pdf/ageingreport_en.pdf
7 http://www.mckinsey.com/global-themes/employment-and-growth/talent-tensions-ahead-a-ceo-briefing
8 *'Closing the Gender Gap: Act Now'*, OECD publication, December 2012.
9 Institute for Public Policy Research, *Childmind the gap: Reforming childcare to support mothers into work,* (February 2014): http://www.ippr.org/publications/childmind-the-gap-reforming-childcare-to-support-mothers-into-work

Section 2:
Trends in female labour market participation

Female labour market participation in Ireland has risen relatively steadily over the last number of decades following the removal of the marriage bar, the increase in education levels and the prevalence of dual career couples. However in Ireland as in most other OECD countries, there is a significant untapped level of female talent that is not participating in the labour market.

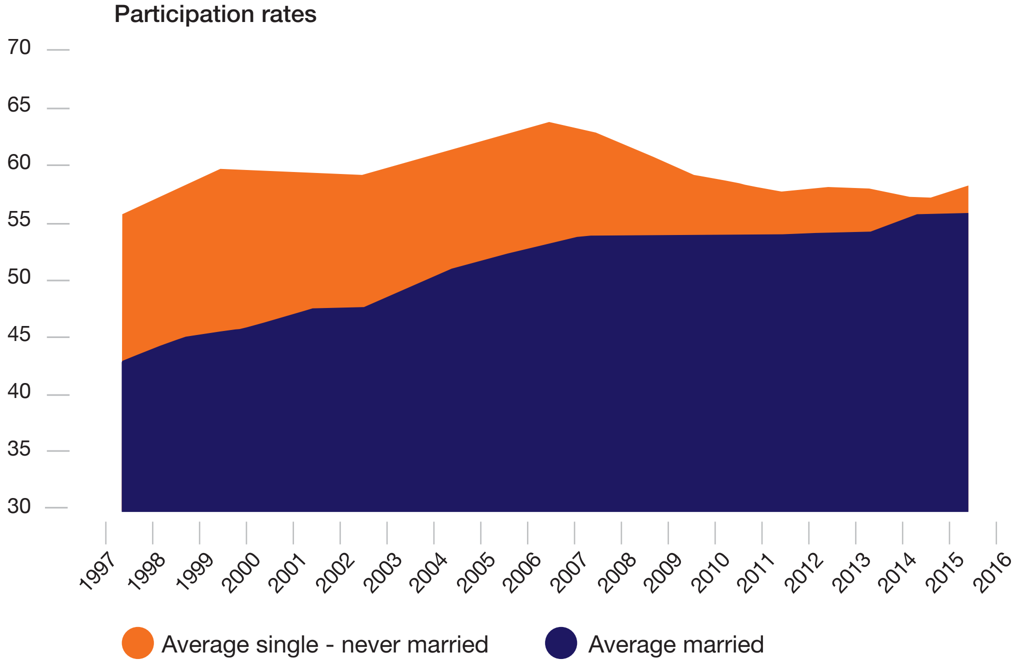
Historically women have had a high level of inactivity in the Irish labour market even during the economic boom, with male participation at 67.8% compared to a female participation rate of 53.6%[10]. This is of particular concern given that women represent more than half of the educated talent on the planet (60% of global graduates are female).

Participation rates for females are 14 percentage points lower than their male counterparts – one of the widest gaps of any European country. When employment rates are considered in terms of full-time equivalents the gap between men and women in Ireland is even greater. While working part-time can reflect personal choices, the high share of female part-time employment may also stem from multiple constraints, including family and care-related reasons[11]. There is also an additional divergence between females who are married and those who are single. Currently, participation rates of married women are 3.5% lower than those who are single. This gap has closed considerably since 2007 when it was more than 10% *(see Figure 1)*. However, this happened not because more married women entered the labour force but because the participation rates of single women fell[12].

While the pattern of gender imbalance in labour market participation is sustained across Europe, Ireland features among the lowest performers[13] for females in the age group "thirty and above", six percentage points lower than their UK counterparts for women aged 25 to 49[14], and 26th out of 32 OECD economies. This time period coincides with key childbearing years (30.2 being the average age for women having their first child in 2013 and 32.1 being the average age of women giving birth[15]). When the impact of children on the labour market participation of men and women is examined[16] *(see Table 1)* the difference is quite evident.

[10] Quarterly National Household Survey Estimates Q2 2016
[11] Employment and Social Developments in Europe Report 2013 — ESDE 2013: pp 185
[12] This drop off is largely an age related effect as younger workers dropped out of the labour force in larger numbers during the crisis and many returned to education. As the labour market continues to improve, participation rates of those who are younger (and single) are likely to rise enlarging this gap again.
[13] Eurostat Labour Force Survey 2015.
[14] Ibec Budget Submission 2017
[15] CSO (2013) Women and Men in Ireland
[16] ibid, Table 2.10

FIGURE 1: PARTICIPATION RATES OF SINGLE AND MARRIED WOMEN



Source: CSO

TABLE 1: EMPLOYMENT RATES OF COUPLES (WITH/WITHOUT CHILDREN) AND LONE PARENTS AGED 20-44 BY AGE OF YOUNGEST CHILD, 2013

Employment rate

Family status	Men	Women
No children	86.2	85.6
Youngest child aged 0-3	81.9	59.5
Youngest child aged 4-5	76.2	51.7
Youngest child aged 6 or over	80.2	59.3
Total	**81.9**	**63.0**

Source: CSO QNHS

Maternal employment rates tend to be lower than for women as a whole. Women's ability to participate in the labour market is constrained by the fact that they spend more time on unpaid work, four times as much on care work (time spent to care for a child or another adult) and twice as much on household work, than men, regardless of the employment status of partners[17] [18] making them less available for participation. The likelihood of female participation was found to be reduced by 17-20% for women with a pre-school child, while having a child aged 5 to 12 years reduces the probability by 7-9%[19]. On the other hand fathers with children under 15 are more likely to be active in the labour market than other men.

Research finds that in most countries, the number of women who would like to work is higher than those in employment especially among women with young children. The European Labour Force Survey [20] found that 12% of inactive women in the 19 countries surveyed would like to work; 18% of inactive women of prime working age (25-54 years), 15% of women with middle or higher education levels and 21% of women who do not seek a job due to family responsibilities. Studies [21] have also identified taxation as having a significant role to play in labour market participation of women as the treatment of married couples often results in married females being taxed more heavily than males or single females. In Ireland the tax treatment of married couples is one of joint taxation which results in tax disincentives for the second earner, often the female, to work.

[17] http://www.oecdbetterlifeindex.org/topics/work-life-balance/
[18] https://www.imf.org/external/pubs/ft/sdn/2013/sdn1310.pdf
[19] ESRI (2009). *A Woman's Place: Female Participation in the Irish Labour Market*
[20] Jaumotte, F. (2003). *Female labour force participation: Past trends and main determinants in OECD countries.* OECD, ECO/WKP(2003)30.
[21] IMF (2016). *Individual Choice or Policies? Drivers of Female Employment in Europe.* IMF Working Paper, WP/16/49/

Section 3:
Causes of poor female labour market participation

There are a range of possible structural and policy causes for the differences in participation rates and the significant employment gaps between the genders embedded in the economic, social and cultural makeup of the country, some beyond the scope of this paper [22].

However there is very clearly an entry cost effect which sees childcare and tax burdens reducing the net reward from employment. To enable greater female labour market participation requires an integrated set of policies to promote and support female employment. To address this we need to strengthen incentives for women to enter the labour market, such as providing parents with more affordable, available and high-quality childcare and reducing the high marginal income tax rates for second earners.

1. Childcare

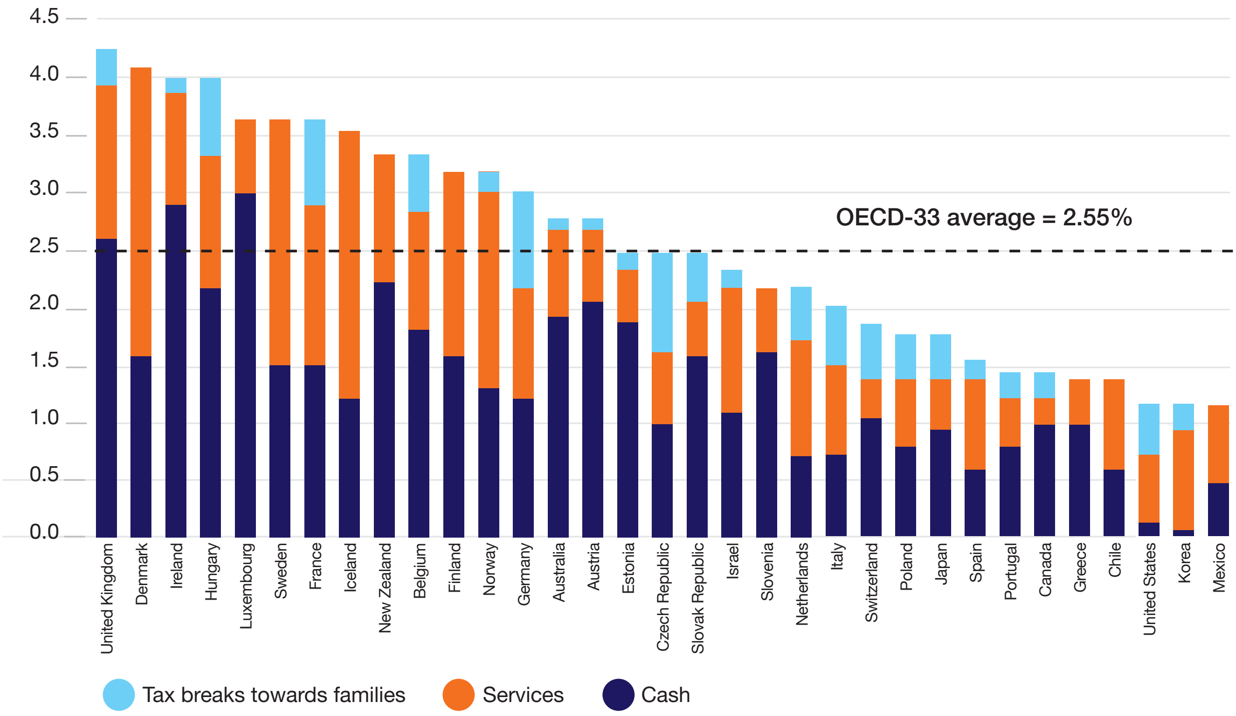
The cost of early childhood care and education in Ireland for parents is among the highest in Europe and directly impacts labour market participation. It is a barrier for families across a range of salary levels, not just those on lower incomes. For households with children, childcare costs represent the largest additional cost associated with taking up employment. The implicit cost of returning to work amounts to 90 per cent of potential earnings in Ireland compared with 57 per cent in the OECD [23].

The Quarterly National Household Survey (QNHS) data indicates there were 38,900 persons wanting to work (Quarter 1, 2015) but not seeking employment because "suitable care services for children are not available or affordable". In many cases there was no choice involved but rather the cost of childcare forced them out of the labour market as going back to work would make them financially worse off. This suggests there is an untapped cohort of parents that may be attracted into the labour force if quality and affordable childcare provisions were available to them.

Childcare costs in Ireland are among the highest in the OECD accounting for 53.5% of the average wage in Ireland, compared to an average of 27.6% in other OECD countries [24]. This is largely because in other countries, childcare costs are heavily subsidised by the State. While Ireland has a relatively low level State funding for childcare, we have the second highest direct payments to parents of any OECD country because of child benefit *(see Figure 2)*. These payments also have a negative effect on female labour market participation due to their income effect[25].

[22] For example, the unequal division of unpaid work; occupational segregation; care responsibilities predominantly residing with women, availability of flexible working arrangements; parental leave arrangements, social norms and attitudes, preferences to remain in the home with young children etc.
[23] National Competitiveness Council (2016). Ireland's Competitiveness Scorecard
[24] Ibec (2016). *Budget 2017.*
[25] IMF (2016). *Individual Choice or Policies? Drivers of Female Employment in Europe.* IMF Working Paper, WP/16/49/

FIGURE 2: PUBLIC SPENDING ON FAMILY BENEFITS IN CASH, SERVICES AND TAX MEASURES, IN PERCENT OF GDP, 2011



Source: Social Expenditure Database preliminary data (www.oecd.org/social/expenditure.htm), September 2014

Econometric studies support these findings, noting the impact of childcare costs on income gain as central to female decisions to leave or remain in the workforce. Research[26] indicates the elasticity of female labour market participation is strongly linked to the price of childcare ranging from -0.13 to -0.2. As such if the price of childcare decreased by 50% the labour market participation of mothers could increase between 6.5 and 10%. Childcare costs can result in disincentives to work, particularly for a second earner in a dual earning couple, as it does not pay to have a job as work cannot pay enough to compensate for the high cost of care. As aforementioned this is particularly the case in Ireland and the United Kingdom where the childcare-related costs represent more than 23% of net family income[27]. Conversely childcare subsidies and public delivery of childcare has boosted female labour market participation in OECD countries[28].

This has significant impacts, both short and long term, on individuals, families and organisations. The household income is automatically reduced if a parent exits the labour market and this puts them at risk of poverty. This is a particular risk for women in lower-skilled jobs. Research[29] found that women in low-skilled jobs reduced the amount they worked each week by an average of 18 hours after the arrival of their second child, compared to 5 hours less per week for those in skilled roles while women in unskilled jobs working more than 20 hours per week dropped by more than half. In total 60% of women with one child aged under four were working to some extent but the figures dipped dramatically when a second child arrived.

[26] IMF (2013). *Women, Work and the Economy: Macroeconomic gains from gender equity*. September 2013, SDN/13/10.
[27] European Commission European Semester Thematic Fiche. *Labour market participation of women*.
[28] IMF (2016). *Individual Choice or Policies? Drivers of Female Employment in Europe*. IMF Working Paper, WP/16/49/
[29] Centre for Economic Performance, London School of Economics 2016

Over time the career gap can extend and a "motherhood penalty" can occur[30] due to interrupted employment, gaps in a CV and loss of experience and salary increments that would be gained while in employment. These can contribute to a gender pay gap and a lack of gender balance in decision-making roles. The gap is considered most serious for women with lower levels of education and fewer qualifications with one UK study suggesting that for women with lower qualifications, hourly wages were 14% lower if their employment was interrupted compared to if it was stable. But the penalty is much higher financially for women with higher qualifications, working out at 4 per cent for each year out of paid work [31]. Conversely maintaining labour market attachment impacts long-term earnings, supports gender equality and drives economic growth.

The affordability of childcare alone is not the problem but also the availability and quality of childcare which may collectively feature in a parent's decision to work or return to work. Currently in Ireland, despite an increase in investment in this area, the service provided in early childcare and education is not consistently appropriate for the children or parents looking to avail of it, with high costs and variable quality and availability core to the problem. Ireland ranks 18th in the World scores which rate quality, affordability and accessibility of early childhood education services (Ranked 13th for availability, 29th for affordability and 14th for quality)[32]. Addressing these connected elements and providing an integrated policy response to promote and support female employment may enable greater participation.

2. Taxation

Another factor influencing female labour market participation is the tax-benefit system. As is the case with high childcare costs, taxes and the withdrawal of benefits can reduce the financial incentives from working. Studies focusing on second earners, i.e. those earning less that their spouse, have found that they are more sensitive than those who are single or are the prime earner to fiscal measures which promote or prevent labour market participation[33]. The Survey of Income and Living Conditions (SILC) data gives a breakdown of household incomes. In approximately 70% of married couples where both partners are working, women are the second earners, earning less that their husband. In addition they only account for 40% of total household earnings. Unintended consequences are resulting in married women being taxed in effect more heavily than single individuals across the OECD despite the aim of equal taxation for equal income. Therefore addressing the tax burden for secondary earners could yield significant labour market outcomes for females.

30 http://www.wsanz.org.nz/journal/docs/WSJNZ261Baker11-24.pdf
31 Institute of Fiscal Studies (2016). *The gender wage gap*. IFS.
32 Economist Intelligence Unit (2012) *Starting Well Index.*
33 Meghir, C. and Phillips, D. (2009) *Labour Supply and Taxes*. Mirrlees Review, Institute for Fiscal Studies

Section 4:
Current situation regarding childcare in Ireland

1. Affordability

Outside the Free Pre-School Year, early childhood care and education services in Ireland remain among the most costly for parents across the EU and OECD countries.

As aforementioned, childcare costs in Ireland are among the highest in the OECD equating to the fourth highest net cost of childcare[34] as a percentage of family income which unlike other countries is not offset by substantial benefits or heavily subsidised by the State. Childcare costs in Ireland are the second highest in the OECD for couples and the highest in the OECD for lone parents. OECD figures indicate that fees for a family in Ireland with two children aged 2-3 years amounts to between 24% and 35% of the net income of a typical dual-earner family and 40% of the net income of a lone-parent family with average income[35].

The costs associated with childcare are the largest costs associated with taking up part or full-time employment. They are influenced by the labour intensive nature of childcare and education, the ratio of adult to child as well as the fact that unlike other countries parents need to pay almost the entire childcare costs due to low state investment.

Costs can differ depending where the parent lives, the age of the child, the type of childcare used and obviously increases incrementally with greater numbers of children. Care for younger children is the most costly due to the labour intensive nature of the care. However, the OECD[36] have recommended that parental contributions average no more than 30% of total costs which may vary based on income.

While Ireland has a relatively low level State funding for childcare, we have the second highest direct payments to parents of any OECD country because of child benefit (Figure 2). These payments however are poorly targeted, with 17% of payments or €330 million going to households who earn more than €100,000 a year (Figure 3). So while low income families receive a lot of support, childcare is increasingly beyond the reach of the "squeezed middle" families[37]. If the poorly targeted child benefit payments were means tested and redirected towards childcare services it would improve the financial incentive to work, increasing our labour force and the productive capacity of the economy.

[34] Report of Inter-Departmental Working Group: Future Investment in Childcare in Ireland. (2015). *To identify and assess policies and future options for increasing the quality, accessibility & affordability of early years and school-age care and education services in Ireland.* Department of Children and Youth Affairs.
[35] Start Strong (2014) *Childcare- Business or Profession?*
[36] OECD (2001). *Employment Outlook Study,* OECD: Paris.
[37] Truss, E., (2012). *Affordable quality: new approaches to childcare.* CentreForum

FIGURE 3: CHILD BENEFIT PAYMENTS BY HOUSEHOLD INCOME

Source: Household Budget Survey and Ibec estimates

The Department of Children and Youth Affairs cites the Government spending on early years and school-age care and education services at €260m each year. The majority of this, circa €246m, goes on three programmes servicing over 100,000 children, the Early Childhood Care and Education (ECCE) programme, the Community Childcare Subvention (CCS) programme and the Training and Employment Childcare (TEC) programmes.
The remainder funds all City/County Childcare Committees, the National Voluntary Childcare Organisations and a number of quality development and training initiatives such as the Learner Fund and Better Start. Despite improvements and commitments an additional investment of €85-90million is required this year just to maintain such services.

The current indirect and direct provision in Ireland is outlined in *Table 2*. Successive governments have increased spending on childcare and last year invested 0.5% of GDP in early childcare and education. However this is compared to the average OECD spend of 0.8% of GDP or the international benchmark set by UNICEF at 1% of GDP[38]. Despite the investment formal childcare remains out of reach for many.

TABLE 2: DIRECT AND INDIRECT PROVISION IN IRELAND

INDIRECT

Child benefit	Universal up to age 16; 18 if the child is in full-time education/has a disability
One parent family payment	Means tested and taxed Single person child carer credit – no tax until income exceeds €24,750 and thereafter have an additional standard rate tax band of €4000 over and above other single individuals
Family income supplement	Weekly tax free income support payment to low-earning employees with children. Eligibility – minimum number of hours, child under 18 (18-22 in education). 60% of difference between the average weekly family income and the income limit which applied to the family. Back to school clothing and footwear allowance – must be getting certain social welfare payments to qualify or taking part in training, employment or adult education schemes with children between 4 and 17.
Maternity leave	26 weeks paid, 16 weeks unpaid
Paternity leave	2 weeks paid
Parental leave	18 weeks up to age 8 unpaid (16 if illness)

[38] *Report of Inter-Departmental Working Group: Future Investment in Childcare in Ireland.* Department of Children and Youth Affairs

DIRECT	
Free pre-school year for age 3 and 4 year olds	Expectation of 95% of eligible age cohort availing of the programme. Participating services get €52.50 per week per child or €73 for higher qualified staff.
Community childcare services provide reduced rates to disadvantaged/low income working parents	Means tested entitlements and budget for about 25000 children.
Childcare education and training support	Provides childcare to qualifying Solas or ETB trainees during courses. Budget for about 8000 children.
After School Childcare programme	Support low income and unemployed people to take up a job, increase their days of employment or take a place on a DSP employment programme. Provides afterschool care for primary school children for 42 weeks.
Community employment childcare	Funding for pre-school children up to age 5 and afterschool places for primary school children to age 13 as well as part-time day rates for school holidays.

Source: Report of Inter-Departmental Working Group: Future Investment in Childcare in Ireland 2015

Staff to child ratios

Ireland's mandatory child-adult ratios are some of the lowest in Europe, see *Table 3*. There is huge variability from country to country e.g. in France the ratio is 1:8 for two year olds compared to 1: 5 in Ireland, while Denmark, Germany and Sweden do not have mandatory ratios for any age group.

TABLE 3: CHILD-ADULT AND SPACE RATIOS

Pre-school service	Age of child	No. of adults	No. of children	Floor area per child
Sessional services	0-1 years	1	3	1.818 sq. metres, maximum of 22 per room
	1-2.5 years	1	5	1.818 sq. metres, maximum of 22 per room
	2.5-6 years	1	11	1.818 sq. metres, maximum of 22 per room
Full/Part-time day care	0-1 year	1	3	3.5 sq metres
	1-2 year	1	5	2.8 sq. metres
	2-3 years	1	6	2.35 sq. metres
	3-6 years	1	8	2.3 sq. metres
Drop-in centres	0-6 years	1	4 (only 2 or less under 15 months	1.818 sq. metres, maximum of 24 per room
Childminders	0-6 years	1	5 (including their own)	No more than 2 children under 15 months
Overnight pre-school service	0-1 years	1	3	
	1-6 years	1	5	

These tight staffing rules increase costs for parents and reduce earnings for employees thus undermining the attractiveness of the sector. This has implications for the continuity of service for parents as well as the individual providers. Based on the variability internationally if staff held higher qualifications (NFQ Level 7 and above) they have engaged in greater levels of training and thus theoretically supervision levels could be raised to enable larger ratios. This should result in better quality and professionalism through greater education levels, attract higher paid staff to the sector and may also make the service more affordable and available.

Recommendation 1:

Child benefit payments should be means tested so that they remain the same for low income households but taper off gradually for higher income households (from €80,000). This has the potential to save the Government €200-€500 million depending on the cut off point for tapering which could be redirected into services (Recommendation 3, 4 and 7).

Recommendation 2:

Ibec recommends that greater flexibility is enabled within child: adult ratios whereby more highly qualified staff (NFQ Level 7 and above) can respond to higher numbers of children. In addition to the higher capitation grants this would provide a greater incentive for providers to encourage workers to obtain these qualifications and potentially lower costs for parents.

2. Availability

The 2016 CSO population estimates[39] indicated 430,500 children aged between 0 and 5 years and 483,000 aged 6-12 years living in Ireland. Pobal[40] reported that approximately 130,430 children attended private and community based childcare in the year 2014.

While there has been investment in the Early Childhood Care and Education (ECCE) area with the extension of the free pre-school year and the provision of the Community Childcare Subvention which provides affordable childcare for low-income families, the availability of subsidised early care and education still does not fit with most working parents needs. The ECCE Scheme provides early childhood care and education for children of pre-school age (aged over 3 years and not older than 5 and a half years).

[39] CSO Population and Migration Estimates, 2016

A capitation fee is paid by the State to participating playschools and daycare services who provide a pre-school service free of charge to all children within the qualifying age range for typically 3 hours per day, 5 days per week only during school terms. Across Europe there is a significant ‘childcare gap’ between the end of adequately paid leave (maternity or parental) and the start of childcare entitlement or compulsory school age. If this provision was increased to include younger children (1-3 year olds) this could further bridge the gap for some parents and encourage them back into the labour market at an earlier stage.

Children can enroll in pre-school at 3 different points (September, January and April) in the school year in order to access the scheme, something that causes challenges for providers due to staffing levels and ratios. While this free year goes some way to offset childcare costs often it is too short to suit even part-time jobs. If the duration was increased to four hours per day, this could facilitate greater access to part-time work. Similarly the Community Childcare Subvention only suits parents within close proximity to a participating service. Worryingly a recent report[41] suggests that due to the costs of provision, providers are reducing the amount of non ECCE provision such as year round and care for children under three years. This would have huge implications for the labour market participation of parents.

The supply difficulties are not limited to the pre-school stage but also feature with children of school-going age. The current Irish school day does not reflect the needs of working parents and the availability and affordability of after-school and out-of-school hours care is an issue. There are fewer places available for children after the school day ends and the logistics of transporting children to a central location brings its own challenges. Again this affects both the participation of parents (particularly females) in the workforce and the nature of their participation. In Ireland there is currently no formal after-school care system in place that is regulated and there has been limited research conducted in this area. Currently after-school or out-of-school services are ad hoc, unregulated and often expensive. They can include full-day care during school holidays, delivery to and from school and meals. A variety of services can occur under this heading such as sports, art and music, homework clubs and other programmes.

These activities have been found to help meet children’s diverse interests and needs while supporting social and emotional development, academic achievement and reducing the risk of early school leaving[42]. Despite large numbers being engaged in such activities they often do not fit well with parents working hours and in particular school holidays can be a major problem for families. One of the challenges to out-of-school hours care is transporting children from one location to another. If out-of-school service utilised existing school buildings this could further reduce the complexity for working parents.

An after-schools service that supports children’s full social, emotional and physical development, merging care and education is required. It must meet the comprehensive needs of working parents including out-of-school hours (before and after school hours) and holidays.

40 Pobal (2015) *Annual Early Years Sector Survey Report 2014.*
41 Early Childhood Ireland (2016). Doing the sums: The real cost of providing childcare
42 Barnardos & Start Strong (2012). *Towards a Scandinavian childcare system for 0-12 year olds in Ireland?*

At the moment many ad hoc services are available in certain locations across the country but the lack of structure or regulation impacts not only availability but quality of provision as well.

Recommendation 3:

Ibec recommends the extension of the Early Childhood Care and Education scheme to include children aged 1 to 3 years and to increase the duration to 4 hours. This would cost roughly €525 million assuming that 95% took it up.

Recommendation 4:

Ibec recommends the implementation of a formal out-of-school hours care system to nationally address the needs of working parents and the atypical work day.

Recommendation 5:

Ensure that out-of-school hours services incorporate a holistic approach to child social and cognitive development through the use of mixed methods within out-of-school care. Options may include sports, drama, homework clubs, technology and unstructured play to support the development of social skills and the foundation of lifelong learning.

Recommendation 6:

Provide out-of-school hours services in existing school buildings, making greater use of the facilities available out of hours and reducing the complexity of care for working parents.

3. Quality

To provide a quality service, a highly trained and skilled staff and low turnover in the workplace is required. While qualification levels do not guarantee high quality they have long been seen as an important contributor and indicator of quality service provision[43]. In Ireland the quality of early childhood care and education services is quite variable and this has implications for a parent's decision to enter or re-enter the labour market.

The EPPE/EPPSE study[44] among others has shown that the benefits of high quality early care and education persist to at least age 14 in relation to both academic outcomes (especially maths and science) and social-behavioural outcomes (e.g. motivation, self-confidence, empathy, impulsiveness, anti-social behaviour).

[43] Report of Inter-Departmental Working Group: Future Investment in Childcare in Ireland. (2015). *To identify and assess policies and future options for increasing the quality, accessibility & affordability of early years and school-age care and education services in Ireland. Department of Children and Youth Affairs.*

[44] Sylva, K., Melhuish, E.C., Sammons, P., Siraj, I. and Taggart, B. (2012) Effective Pre-school, Primary and Secondary Education 3-14 Project (EPPSE 3-14) - Final Report from the Key Stage 3 Phase: Influences on Students' Development from age 11-14. Department for Education Research Report 202.

While the OECD's analysis of the 2009 international PISA rankings finds that 15 year old educational attainment is higher for those who attended pre-primary education with the highest results occurring in countries with high quality early education systems which have high levels of public investment[45]. The cognitive development of children, particularly children whose backgrounds are deprived, show significant improvements during their participation in high quality childcare from age 2 onwards, narrowing the gaps between disadvantaged children and their peers[46].

Children attending high quality early education are better prepared to start school and often have special needs identified early allowing for successful early intervention or support. Melhuish (2004[47]) reported that from age 2-3 onwards children did better in quality early years care and education than they did remaining at home and the benefits to children of low-income, low-education or immigrant households were significant[48]. Similarly poor quality care and education has just as significant an effect with research suggesting it harms children's future prospects[49], impacting both their educational and social learning.

It has been recognised that there is a need for the sector to raise its qualifications levels which are significantly below European standards, and encourage its professionalism. A European Commission report[50] indicated an international benchmark of 60% graduates (Level 7 or above) for early years care and education. In France 40% of staff must hold a Diploma, in the Netherlands certified childcare workers must have three years of training while in Denmark childcare workers have between 3 to 5 years vocational or third level education prior to working in the sector. Pobal in 2014[51] suggested that only 14.7% of staff in the sector in Ireland had Level 7 or above while 9.1% had no qualifications. New regulations mean that childcare workers have to achieve minimum mandatory qualifications of QQI level 5 for care workers and Level 6 for ECCE funded programmes. The Department of Children and Youth Affairs[52] report that 91% of staff in the sector hold a Level 5 qualification and 9% are in training.

A lot of work has been done to address the issue of quality and professionalism through a variety of means.

- The development and roll-out of the Síolta and Aistear curriculum and quality framework;
- The education focused inspection system;
- The provision of Better Start mentoring and advice to early care and education providers;
- The funding for learners to support their completion of NFQ Level 5 and 6 training;
- The provision of higher capitation grants to services where the senior staff members have a degree in early childhood care and education or equivalent

45 OECD (2010), *PISA 2009 Results: Executive Summary*
46 Sylva, K., Melhuish, E., Sammons, P., Siraj-Blatchford, I and Taggart, D. (2004). *"The effective provision of pre-school education project: findings from pre-school to end of key stage 1.*, Nottingham: Department for Education and Skills, pp1-2.
47 Melhuish (2004). In Start Strong (2014) *Childcare- Business or Profession?*
48 Gambara et al (2014). In Start Strong (2014) *Childcare- Business or Profession?,* pp76-78.
49 McCartney (2004). Ibid.
50 CoRe (2011). *Competence Requirements in Early Childhood Education and Care.* European Commission
51 Pobal (2015) *Annual Early Years Sector Survey Report 2014.*
52 Report of Inter-Departmental Working Group: Future Investment in Childcare in Ireland. (2015). *To identify and assess policies and future options for increasing the quality, accessibility & affordability of early years and school-age care and education services in Ireland.* Department of Children and Youth Affairs.

Recommendation 7:

Ibec recommends the continued investment in the professionalisation of the early years' service through the learner fund and the opportunity for continuous professional development within the sector.

Inspection

While inspection and regulations are key to achieving quality within the early childcare and education sector, at the moment there are a significant number of inspections taking place each with a different but related focus. Inspections are carried out by various bodies for various aspects of quality and regulation:

- Túsla the statutory inspectorate for early years services, inspect against the Child Care Act 1991 (Early Years Services) Regulations 2016 to ensure the health, safety and welfare of pre-school children (under 6) attending early years services. This includes registration, management and staff, safety, premises and space requirements, complaints procedures, inspection and enforcement, and staff–child ratios;

- The Early Years Inspectorate in the Department of Education and Skills (DES) carry out education-focused inspections on pre-school services delivering the ECCE programme, to ensure a greater focus on the quality of the educational provision of the programme, and to identify poor practice or areas requiring improvement;

- Pobal carries out financial compliance checks on behalf of the DCYA on services participating in the Department's childcare programmes (Early Childhood Care and Education Programme (ECCE), Childcare Subvention Programme, or Training and Education Programmes).

This can cause unnecessary administrative burdens on providers when Túsla[53] found that most pre-school services complied with the majority of regulatory requirements (Pre-School Regulations 2006). The areas requiring improvement fell into three categories governance, welfare and safety and have been the focus of renewed inspection approaches.

While the Department of Children and Youth Affairs chairs a group comprising DES, Túsla, Pobal and Better Start teams to try and coordinate inspection and minimise duplication, it still means that inspections may occur more than once every 12 months which appears a costly and inefficient use of resources, focuses on process and interferes with the delivery of service to the children.

[53] Hanafin, S. (2014) *Report on the Quality of Pre-School Services: Analysis of Pre-School Inspection Reports,* Dublin: TUSLA.

The cost of early years education focused inspection alone is €600,000 which only covers 10-20% of 4165 early years providers being inspected in a year. In addition, parents find it difficult to access such inspections to make informed choices about providers which could help inform their decision to return to work.

Other issues regarding quality and inspection surround the concerns of childcare and early education providers about the consistency of inspections across the country and the varied backgrounds of inspectors. Many have backgrounds in public health, teaching, social care and nursing but providers believe that a childcare or early education qualification would be more relevant.

If providers were offered the opportunity to become accredited or attain a quality mark for 2 years it could raise the level of compliance within the operations, reduce the time spent engaged in multiple inspections from multiple agencies and enable consistency across inspections. Using a support structure such as the Better Start National Quality Support Service (funded by the Department, employs early childhood specialists to work directly with pre-school services to support quality improvement), to address any issues identified in the inspection such as gaps in governance, safety or welfare could be immediately dealt with through mentoring and support ensuring corrective measures were engaged with. This would streamline the assessment of services suitable for ECCE funding as well as the quality and appropriateness of the services in general thus helping to increase the professionalism of the sector. A renewed transparent focus on quality may encourage greater levels of participation.

Recommendation 8:

Inspections should come under one umbrella whereby a multidisciplinary team carry out a full audit on a childcare/early education service and offer them a quality mark for 2 years. This would enable redirection of money from inspections back into services such as CPD and mentoring while also reducing the duplication of work for carers and teachers in such establishments. This may require a statutory instrument.

Recommendation 9:

Provide an integrated approach to accountability for individual providers. DCYA, DES and Túsla need to develop an integrated framework for communicating and responding to matters identified in the various compliance, evaluation and inspection systems. This should invoke support from the Better Start mentoring service to enable services to correct issues and reach compliance.

[53] Hanafin, S. (2014) *Report on the Quality of Pre-School Services: Analysis of Pre-School Inspection Reports,* Dublin: TUSLA.

In addition to the benefits to providers of having a quality mark for the childcare/early education service this would facilitate the introduction of a tax saver scheme through employers which would target the needs of those parents deemed the "squeezed middle". While the personal tax burden has started to reduce in Ireland in recent budgets, middle-income and higher-income earners still pay more tax than they did prior to the introduction of austerity measures. This may have implications for growth and productivity as it will become less attractive for employees in the "squeezed middle" to earn more or achieve a promotion as high personal tax levels are also incurred.

Using a model similar to the travel saver commuting ticket, employees could receive childcare vouchers for eligible providers who have received the quality mark, tax and PRSI free taking the cost of the voucher from the gross salary and saving the employer a percentage of employer PRSI for administering the scheme. This scheme would meet the needs of parents already in the labour market, and could act to encourage them to remain in the labour force particularly those with more than one child, usually females, who have been identified as more likely to leave employment due to childcare costs. *Figure 4* outlines how the Childcare Voucher Scheme works in the UK.

FIGURE 4: UK CHILDCARE VOUCHER SCHEME

The **Childcare Voucher Scheme** is a UK government initiative to help working parents save money on childcare through tax efficiencies. The scheme is normally offered as a salary sacrifice scheme, which means that parents obtain childcare vouchers the cost of which is taken out of their salary (to an equal value). In doing this the parents do not pay any tax or national insurance on the amount contributed to the childcare vouchers scheme up to specified limits. Beyond the specified limits parents would pay for childcare in the usual taxable fashion. Vouchers can be used for childcare, au pairs, after school clubs and any other registered childcare providers.

For example, a parent given £55 per week (£243 per month) in Childcare Vouchers after taking a salary sacrifice of the same amount, will then benefit by saving up to £933 tax/NIC.

Recommendation 10:

Explore the feasibility and possible benefits of a tax saver childcare voucher model to encourage the retention of females in the labour market.

Section 5:
Current situation regarding taxation in Ireland

As noted in section 3 (Causes of poor female labour market participation) the design of tax systems provide a key element in the decision women may make regarding entering or remaining in the labour market. In general high marginal tax rates can reduce labour supply and, as this is more elastic for females, the impact on the labour market participation of married women could be significant[54].

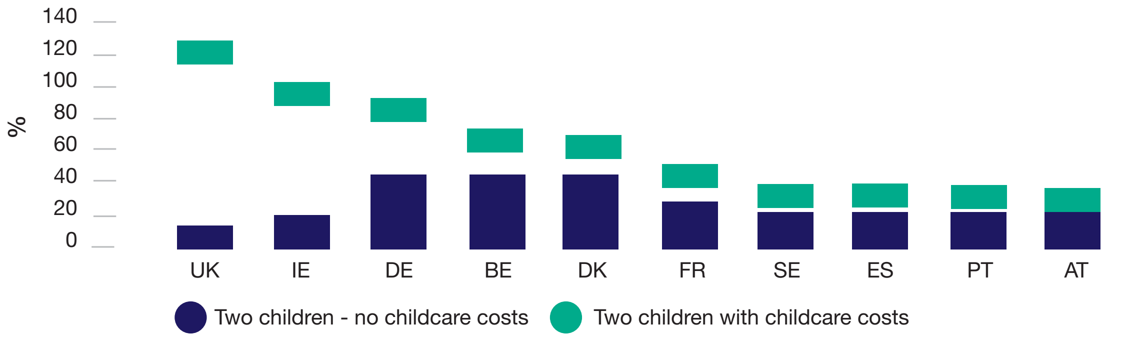
Second earners in general are much more responsive to changes in the tax- benefit system and the financial incentives it creates. If the combination of increased taxes or a reduction in benefits lowers potential income, second earners are much less likely to work. By contrast if the benefits from working are high, second earners are much more likely to take on work.

The Irish tax system differs from many other countries in that it is characterised by a very narrow base with many people excluded from the tax net. This is combined with both very low and very high effective tax rates at each end of the income distribution. Participation Tax Rates (PTR) measure the proportion of income that would be taxed away when a person starts working due to tax or lost benefits. Due to the narrow tax base and low tax rates charged on initial incomes, average PTR's for second earners in Ireland appear to be the second lowest in the EU. This should mean that there is a very strong incentive to enter the workforce as only 18% of earnings would be taken away.

However, this does not take into account childcare costs which also reduce the financial incentives from working. Once these costs are taken into account, PTR's go from being one of the lowest in the EU to one of the highest. *Figure 5* shows these rates for different European countries. Employees with no childcare costs will only lose 18% of their income, compared to 92% for someone with children.

[54] Jaumotte, F. (2003). *Female labour force participation: Past trends and main determinants in OECD countries.* OECD, ECO/WKP(2003)30.

FIGURE 5: MEDIAN PTR FOR WOMEN WHO ENTER WORK AND END UP BEING SECOND EARNERS ACROSS EUROPE

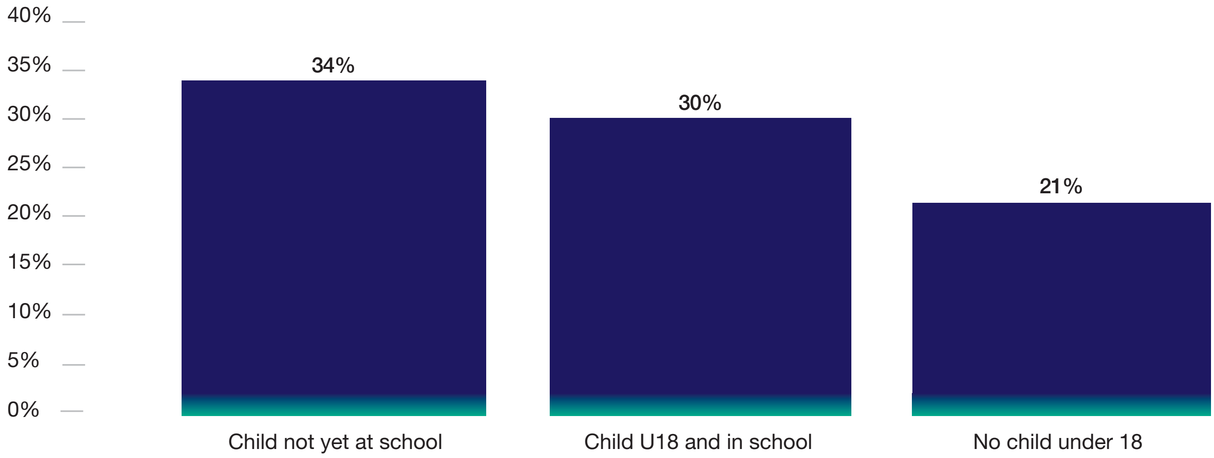


Source: Rastrigina and Verashchagina, 2015 [55]

Note: Figures for Ireland assume household income is €62,868 where female earns 28% of household earnings.

The interaction effect and impact of these childcare costs can be seen in *Figure 6*, where a higher proportion of women with children who are not at school do not work.

FIGURE 6: % OF MARRIED WOMEN AGED 25-49 WHO DO NOT WORK

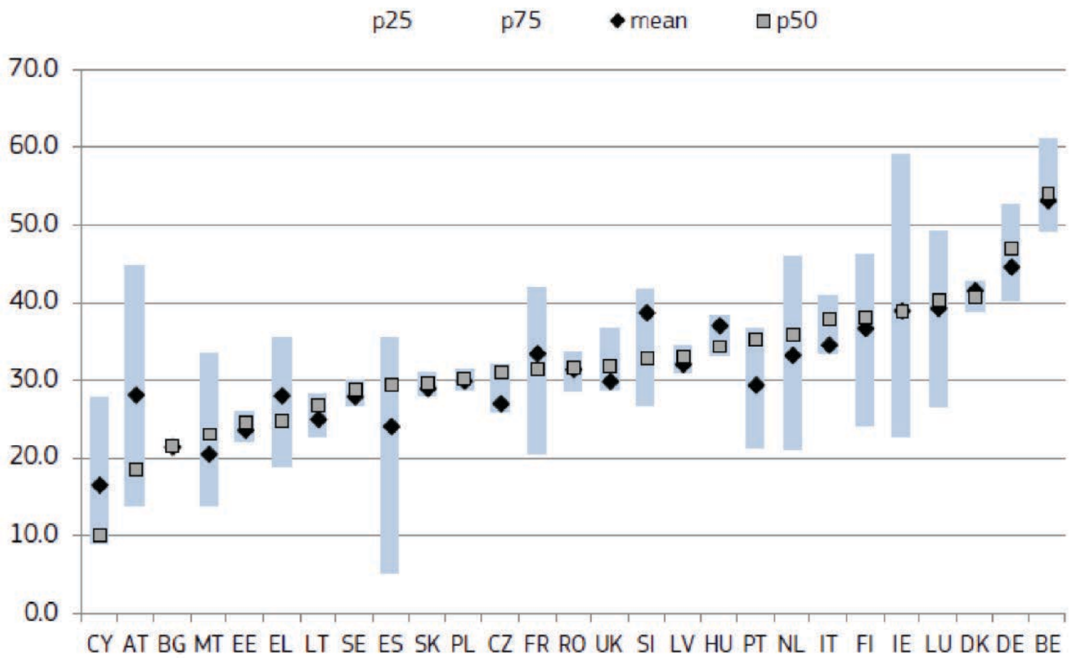


Source: SILC 2013 [56]

[55] Rastrigina, O. and Verashchagina,A (2015) *Secondary earners and fiscal policies in Europe*
[56] www.cso.ie/en/releasesandpublications/er/silc/surveyonincomeandlivingconditions2013/

Marginal Effective Tax Rates (METR) are similar to PTR, except they apply to people who are already in work and they measure the proportion of extra income that will be lost if more hours are taken on. This can be due to the loss of benefits or high marginal tax rates. On initial incomes METR's are relatively low, again due to the narrow tax base. Those in the bottom 25% of second earners in Ireland are faced with one of the lowest METR's in Europe *(see Figure 7).* However on higher incomes, these rates rise significantly. This is because in Ireland the top marginal rate of tax is much higher than other countries and it also applies at earnings which are below the national average. Therefore a very large number of people end up paying these very high tax rates.

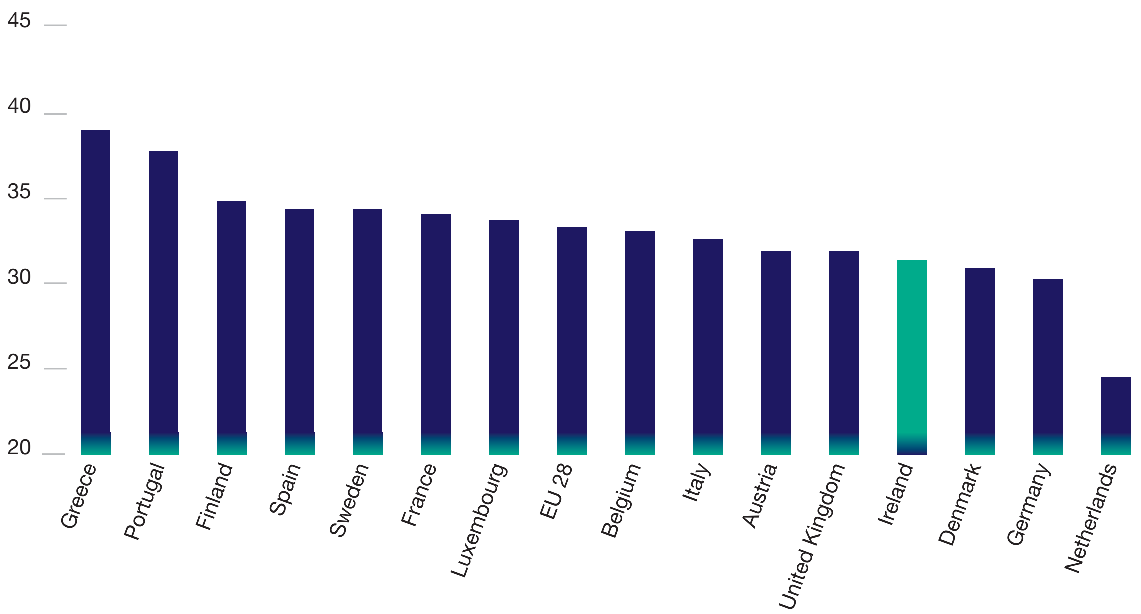
FIGURE 7: DISTRIBUTION OF MARGINAL EFFECTIVE TAX RATES FOR SECOND EARNERS



Source: Rastrigina and Verashchagina, 2015

Median METR's for second earners in Ireland are the fourth highest in Europe while the top 25% of second earners pay METR's of almost 60%- the highest rate after Belgium. As this study was conducted during 2012, recent cuts to the USC would have brought these rates down somewhat since then. Unlike high PTR's which can prevent people from entering the labour market, high METR's can also reduce the incentive to take on more work and increase hours. This is particularly true for second earners. In Ireland, the number of hours worked by females is low, particularly in a European context *(see Figure 8)*, suggesting that these high marginal tax rates are causing more people to work part-time than otherwise would be the case.

FIGURE 8: HOURS WORKED (FEMALE)



Source: Rastrigina and Verashchagina, 2015

Recommendation 11:

The income tax system should be broad based with top marginal rates (inclusive of USC and PRSI) of no more than 45%.

Recommendation 12:

50% of workers' already pay tax at the 49.5% marginal rate or above. The entry point to the top marginal rate should be linked to above the average wage (currently €35,700) to avoid fiscal drag as wages increase.

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