Regulatory Impact Analysis of the Affordable Childcare Scheme

1. Summary of RIA

Department / office: Children and Youth Affairs	**Title of Legislation:** Childcare Support Bill
Stage: General Scheme of Bill published, draft Bill to be submitted to Government.	**Date:** 21st November 2017
Related Publications: DCYA (2016) Policy Paper on Development of a New Single Affordable Childcare Scheme	
Available to view or download at: www.dcya.gov.ie	
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What policy options have been considered? 1. Do nothing 2. Improve existing schemes (further building on reforms introduced in 2016 and September 2017) 3. Replace existing schemes with Affordable Childcare Scheme (shifting to income as basis for eligibility, to be assessed through automated income-assessments, based on data-exchange with the Revenue Commissioners and the Department of Employment Affairs and Social Protection). Preferred option: 3	

OPTIONS			
	COSTS	**BENEFITS**	**IMPACTS**
1	• Est. €99m full-year cost. • High childcare costs to parents who cannot access / ineligible for subsidies. • High administrative costs for providers.	• No change, thus minimising disruption for providers.	• Labour market disincentives. • Continued childcare support for non-working low-income families.
2	• Est. €116m full-year cost. • High childcare costs to parents who are ineligible for subsidies. • High administrative costs for providers.	• Greater affordability for parents who are eligible. • Minimal change, thus limiting disruption for providers.	• Labour market disincentives. • Continued childcare support for non-working low-income families.
3	• Est. €127m-€149m 'static' full-year cost. ('Dynamic' costs may rise to €165-193m.) • Lower costs for parents as a result of wider access. • Lower administrative costs for providers. • Development and transition costs.	• Greater affordability for parents who are eligible. • Wider eligibility. • Fairer and more graduated assessment. • Reduced dependence on Medical Cards. • Easier access for parents. • Statutory basis. • Flexibility in design.	• Positive labour market incentives. Scope for further improvement. • Childcare support linked to level of need. • Potential for stronger future support in disadvantaged areas. • Reduced administrative burden.

2. Policy context and objectives

2.1 Policy context

The cost of childcare to parents in Ireland, after taking into account childcare subsidies, is among the highest in the EU, relative to wages. It is an issue that has been prioritised by the European Commission each year in its Country Specific Recommendations. In particular, the European Commission has highlighted the impact of Ireland's high childcare costs on labour market participation and child poverty: 'The availability and cost of quality fulltime childcare present barriers to female labour market participation and hinder efforts to reduce child poverty, which has fallen slightly but remains higher than the EU average'.[1]

While a number of schemes currently exist that are aimed at making childcare more affordable for parents (described in section 3.1), these schemes are administratively complex, inadequate in terms of accessibility and limited to those on specific social welfare payments or training programmes.

In recognition of the importance of early years care and education, in 2015 an Inter-Departmental Group was established to identify and assess policy options for increasing the affordability, quality and supply of early years and school-age care and education services in Ireland. Among other things, its report [2] argued for continuing with a supply-side approach to funding (rather than a demand-side approach such as tax credits) open to all registered childcare providers (both community and private). The report included an *ex ante* evaluation of tax credits in respect of childcare. While acknowledging the simplicity of channelling funding through the tax system, the report highlighted the lack of progressivity in tax credit funding (with support focused on families in the tax net) and the lack of scope of such funding to leverage other objectives of State-supported childcare, particularly quality improvements.

A core recommendation of the Inter-Departmental Group was the introduction of a single targeted childcare funding scheme, to replace the existing targeted childcare schemes with a new, streamlined scheme with simplified eligibility based on income.

The Programme for a Partnership Government in 2016 reaffirmed the Government's commitment to the development of a new targeted childcare scheme to 'streamline the existing schemes to make them more accessible for both parents and providers' and to 'continue to support subsidised childcare places for low income families'. It also contained a commitment to 'support the introduction of a robust model for subsidised high quality childcare for children aged 9- 36 months'.

To achieve these commitments, Budget 2017 announced the introduction of the Affordable Childcare Scheme (ACS), with funding for IT development and for increased subsidies. A policy paper on the scheme was published in October 2016, and Heads of Bill were published in February 2017.

[1] EC (2017) Recommendation for a Council Recommendation on the 2017 National Reform Programme, COM (2017) 507.
[2] DCYA (2015) Report of the Inter-Departmental Group on Future Investment in Childcare in Ireland.

2.2 Statement of objectives

The high-level objectives of the ACS, as described in the policy paper, are to:

- Ensure that access to affordable childcare is not a barrier to labour market participation, including female labour market participation;
- Promote positive child outcomes;
- Narrow the gap in attainment between more and less advantaged children by enabling all children to access high quality, affordable childcare;
- Drive quality across the sector and, crucially,
- Through the above objectives, contribute to poverty reduction in Ireland.
- The scheme is also intended to provide a sound and flexible platform for sustainable future investment.

To support these higher-level objectives, the immediate objectives of the scheme are to:

- Provide a system of progressive financial support towards the cost of childcare (Progressiveness and Affordability);
- Ensure that everyone is assessed on the same consistent, equitable basis having regard to their income and their need for childcare (Equity);
- Be administratively clear and straightforward, leveraging the benefits of technology to enable timely self-assessment to the greatest extent possible (Efficiency and Responsiveness);
- Support parental choice and geographic access in terms of allowing a choice of registered childcare provider (Choice and Access); and
- Be robust, with clear, well-defined eligibility rules set down in primary legislation and strong underlying administrative systems and structures (Good governance).

3. Identification of policy options

3.1 Do nothing

Policy option 1, 'do nothing', would involve maintaining the existing childcare funding schemes as they currently are. The four targeted programmes are:[3]

- Community Childcare Subvention (CCS)
- Childcare Education and Training (CETS)
- After-school Childcare (ASCC)
- Community Employment Childcare (CEC)

Parents' eligibility varies between the schemes. Eligibility to CCS, the largest of the schemes, depends on possession of a Medical Card and/or receipt of one of a range of social welfare payments. Eligibility to the other schemes depends on participation in an approved training course, participation in the Community Employment programme, or seeking after-school childcare when transitioning into employment or increasing hours of work.

The 'do nothing' option takes into account a number of recent significant improvements in the funding schemes, including (a) opening the CCS programme to private childcare providers in 2016, and (b) up to 50% increases in subsidy-rates and the introduction of an

[3] In addition, the ECCE Free Pre-School Programme, which aims to support children's learning and development, provides 15 hours per week (during term-times only) of free early childhood care and education for children who are 3 or older and have not yet started school.

additional band of funding within CCS to provide a universal subsidy for all children aged less than 3 from September 2017 as interim measures pending the introduction of the Affordable Childcare Scheme.

3.2 Further improve existing schemes

Policy option 2 would involve maintaining the existing childcare funding schemes, but introducing further improvements to them, building on the improvements already introduced in 2016 and September 2017. The improvements considered within this option are:

- Further increasing subsidy rates, e.g. by raising the full-time subsidy above €145 per week and the part-time subsidy above €80 per week.
- Further communication and incentivisation measures to encourage more childcare providers to participate in the schemes.

3.3 Replace existing schemes with the Affordable Childcare Scheme

Policy option 3, which is the option proposed by the Minister for Children and Youth Affairs and agreed by the Government in October 2016, involves:

- Replacing the four current schemes with a single, streamlined scheme.
- Moving from the current complex range of eligibility criteria to a single set of criteria, with eligibility based on income.
- Providing for automated income-assessment through a new electronic application process and data-sharing arrangements with the Revenue Commissioners and the Department of Employment Affairs and Social Protection, underpinned by new legislation.

4. Costs, benefits and impacts of each option

4.1 Costs

4.1.1 Option 1: Do nothing

The full-year cost to the Exchequer of the existing schemes, following the measures introduced in September 2017, is estimated to be approx. €99m.

This cost estimate is based on the level of participation among childcare providers in November 2017 (85%). While a high level of participation, the rate is still less than 100%. While reducing the cost to the Exchequer, a participation rate of less than 100% among providers implies that some parents may have limited access to the financial supports available under the existing schemes, thus raising the cost of childcare to those parents.

Recent changes to the schemes – both the increases in subsidy-rates and the increased access to the schemes as a result of their opening to private providers and communications actions – have reduced childcare costs significantly for many parents, and have provided a basic level of subsidy for a large number of other parents for the first time. Whereas 30,500 children benefited from the schemes in summer 2016, the number had risen to 33,200 by summer 2017. Following the September 2017 measures, an additional 29,000 children and their families are benefiting from the new universal payment (of up to a maximum of €20 per week).

However, it remains the case that net childcare costs are still high for many parents, and some parents cannot access childcare subsidies because of the current schemes' eligibility rules and therefore have to face the full cost of childcare (or at most receive the 'universal' subsidy-rate). In particular, this is the case for (a) parents who are in low-income employment or self-employment but who cannot access Family Income Supplement, and (b) parents who are on education or training courses that are not among those qualifying for childcare support under the CETS scheme, e.g. higher education courses.

The eligibility rules also result in an indirect cost to the Exchequer through foregone tax revenues. The barrier to employment that results from high net childcare costs for some parents, and in particular the labour market disincentives arising from Options 1 and 2 (which are discussed further in Section 4.3.1 on the Impact on National Competitiveness), result in lower tax revenues for the Exchequer than would be achieved under Option 3.

Childcare providers face significant administrative costs resulting from the need to operate and report on multiple childcare funding schemes, in particular because of the requirement in existing schemes that it is childcare providers who make the applications for financial support on behalf of parents. This requires childcare providers to gather and process evidence of parents' eligibility in the form of PPS numbers, evidence of social welfare payments, Medical Cards, and letters from education providers.

Data on the scale of the administrative burden facing childcare providers is not currently available, but an Independent Review of the Cost of Quality Childcare, which was recently commissioned and is due for completion in mid-2018, will gather data. In recognition of administration and other non-teaching costs, the Government has made a payment for 'non-contact time' (i.e. time not directly working with children) to childcare providers participating in the CCS, CETS, ASCC and CEC schemes of €3.5m for the 2016-17 programme year and has committed to a further payment of €3.5m for 2017-18.

The manual gathering and submission of eligibility information also creates administrative costs for other agencies who are requested by parents to provide evidence to support claims of eligibility, e.g. local social welfare offices and education providers.

4.1.2 Option 2: Improve existing schemes

The cost to the Exchequer of further reforms to the existing schemes would depend on the nature of the actions taken:

- A 15% increase in targeted subsidy-rates (i.e. all subsidy-rates other than those for the 'universal' band), which would bring subsidy-rates more in line with those proposed for Option 3 (the Affordable Childcare Scheme),[4] would raise full-year costs by an estimated €13m to €112m. (The proposed 'universal' subsidy-rate – with a maximum payment of €20 per week for full-time childcare – is the same in Options 2 and 3.)
- An increase in the proportion of childcare providers in the schemes from 85% to 100% would raise costs by a further estimated €4m to €116m.

[4] Subsidy-rates cannot be directly compared between Options 2 and 3 because Option 3 offers a much wider range of subsidy-rates, with rates varying according to the age of the child and the individual family's income. However, as an indicative comparison, the €4.18 per hour maximum subsidy proposed for 2-year old children in Option 3 equates to a weekly payment of €167 for full-time childcare (given the maximum 40 hours per week of payment), which can be compared with the €145 per week maximum subsidy for full-time childcare under the CCS scheme (for 'Band A' parents) and the CETS scheme. A 15% increase in the latter would bring the CCS/CETS maximum subsidy also to €167 per week.

While the increase in subsidy-rates and improved participation rates under Option 2 would improve access to affordable childcare relative to Option 1, the access constraints in Option 1 that result from the schemes' eligibility rules would apply equally to Option 2.

As a result, while Option 2 would reduce the barrier to employment that some parents face as a result of high net childcare costs, the eligibility rules in Option 2 would – as they do with Option 1 – continue to disincentivise labour market participation. This effect in turn is likely to reduce labour market participation relative to Option 3, resulting in greater tax revenues foregone for the Exchequer.

The administrative costs for childcare providers and for other agencies would be the same in option 2 as in option 1.

4.1.3 Option 3: Affordable Childcare Scheme

'Static' cost estimates of option 3 – i.e. assuming no change in demand for childcare, with no change in parents' childcare choices or in their rate or hours of labour market participation – indicate a full-year cost of between €127m (DCYA estimate) and €149m (DCYA estimate based on ESRI analysis using the SWITCH model), given the subsidy-rates and income-thresholds proposed in the ACS policy paper. This estimate assumes participation by 100% of registered childcare providers, reflecting the expected high level of demand for the scheme among parents and the reduced administrative burden for childcare providers.

However, it is also anticipated that demand for childcare will rise under option 3 as a result of improved subsidy-rates (relative to Option 1), wider eligibility to subsidies (linked to income) and improved labour market incentives. While there is considerable uncertainty around estimates of these 'dynamic' effects, international evidence (presented in the ACS policy paper) suggests costs may rise 30% or more above the 'static' estimate, though the increase may happen gradually over time. DCYA currently estimates the full-year costs may rise to a figure between €165m (DCYA estimate) and €193m (DCYA estimate based on ESRI analysis using the SWITCH model), though there is considerable uncertainty over the size and timing of this effect given the scale of change involved in option 3 for parents.

As with option 2, the increase in subsidy-rates and improved participation rates would both improve access to affordable childcare relative to Option 1. In addition, the change to an income-basis for eligibility would improve access to affordable childcare for parents who are in-work but on a low income, or who are on education and training courses not currently approved for CETS, such as programmes of higher education. Both these effects would widen access relative to option 2.

Option 3 would reduce administrative costs for childcare providers, especially in relation to application processes.[5] In particular, option 3 would involve parents applying for subsidies directly to the scheme administrator (Pobal) via a simple online application process, and childcare providers having no involvement in the application process, which would bring a significant reduction in administrative costs for childcare providers.

[5] The public consultation policy proposals indicated a level of doubt as to the administrative benefits of the ACS for childcare providers (with 55% of childcare provides stating they thought it 'unlikely' or 'not at all likely' that the ACS would simplify administration – p.81 of the consultation report), but the consultation was carried out before full information was available on the administrative procedures that the ACS would involve. The consultation indicated that providers were generally in favour of increased online administration (p.10).

The automated nature of the application process would also reduce administrative costs for other agencies. In particular, option 3 involves establishment of an automated data-exchange between the Department of Employment Affairs and Social Protection (and the Revenue Commissioners) and the ACS scheme administrator. By means of these data-exchanges, when a parent enters their PPS number in the online application form for an income-related subsidy under the ACS, information will be supplied automatically from DSP databases in relation to relevant social welfare payments made to the parent and the parent's partner (and Revenue in relation to taxable income), for the purpose of the income-assessment that will underpin the ACS.

The IT development costs for introducing Option 3, including the full project management office from design through to implementation, are currently estimated to be approximately €6.7m. In addition, the introduction of Option 3 would give rise to once-off, additional operating costs for the scheme administrator of approximately €8m (current estimate) during the period of transition to the scheme, launch and initial months of operation (with temporary resources required for processing initial applications).

When fully operational, Option 3 would result in higher on-going operating costs for the scheme administrator than Options 1 and 2. A preliminary cost estimate is approx. €5m per year. However, this additional cost must be seen in the context of reduced administrative costs for childcare providers in the processing of applications, easier access for parents, and the implementation of a more robust scheme that includes introduction of new appeals procedures, strong data protection provisions, and statutory powers to monitor compliance with scheme rules and prevent the misuse of public funds. A large proportion of the additional administrative costs would also be fixed costs that would accommodate increased numbers of beneficiaries and would remain constant even if the level of investment in childcare subsidies were to rise significantly. For example, the new IT system would provide a platform that would allow for incorporation of other childcare funding, such as the ECCE programme.

4.2 Benefits

4.2.1 Option 1: Do nothing

The benefit of option 1 is that it would involve no further change – either for childcare providers or for the scheme administrator – which is a relevant factor given the fast pace of change in the early years sector over recent years,[6] particularly given the recent changes made to the schemes under consideration here, with extension of CCS to private providers in 2016, and the introduction of a 'universal' subsidy band and large increases in subsidy-rates in September 2017.

4.2.2 Option 2: Improve existing schemes

Relative to option 1, option 2 would improve affordability of childcare for those families who are eligible for targeted subsidies under the existing schemes, through increasing subsidy payments.

[6] In the public consultation on the ACS, a number of respondents 'called for greater consistency in the system, as it was difficult to keep up to date with year-on-year changes in schemes and regulations' (consultation report, p.51).

It should be noted that as there is no general control of fees charged by childcare providers, childcare providers may respond to increased subsidies through raising prices, thus absorbing some of the additional subsidies and reducing the affordability improvement for parents. However, initial indications from the roll-out of the changes in September 2017 – which involved much larger subsidy increases than those proposed in Options 2 or 3 – are that increases in fees have been small relative to the increase in subsidy-rates. Pobal's annual sector profile indicates that fees rose up to 4% between 2016 and 2017.[7] Preliminary analysis of fees-lists submitted by childcare providers in September 2017 for the programme-year 2017-2018 indicates fee increases that are in line with the findings published in the Pobal sector profile.

Option 2 would also be likely to improve access to childcare subsidies through encouraging a larger proportion of childcare providers to participate in the schemes.

Like option 1, option 2 would have the benefit of limiting the degree of change for childcare providers and for the scheme administrator. While option 2 would involve some changes, these changes would be within the existing schemes, which are already known to the majority of childcare providers.

4.2.3 Option 3: Affordable Childcare Scheme

Option 3 offers greater improvements in affordability than option 2, as it would widen access to affordable childcare, e.g. to working parents ineligible for Family Income Supplement and to parents in higher education. As with option 2, option 3 is likely to improve access through encouraging a larger proportion of childcare providers to participate in subsidy schemes. Also as with option 2, increases in subsidy-rates relative to option 1 will improve affordability, but could be offset by any increases in the price of childcare that childcare providers make in response to the increased subsidies.

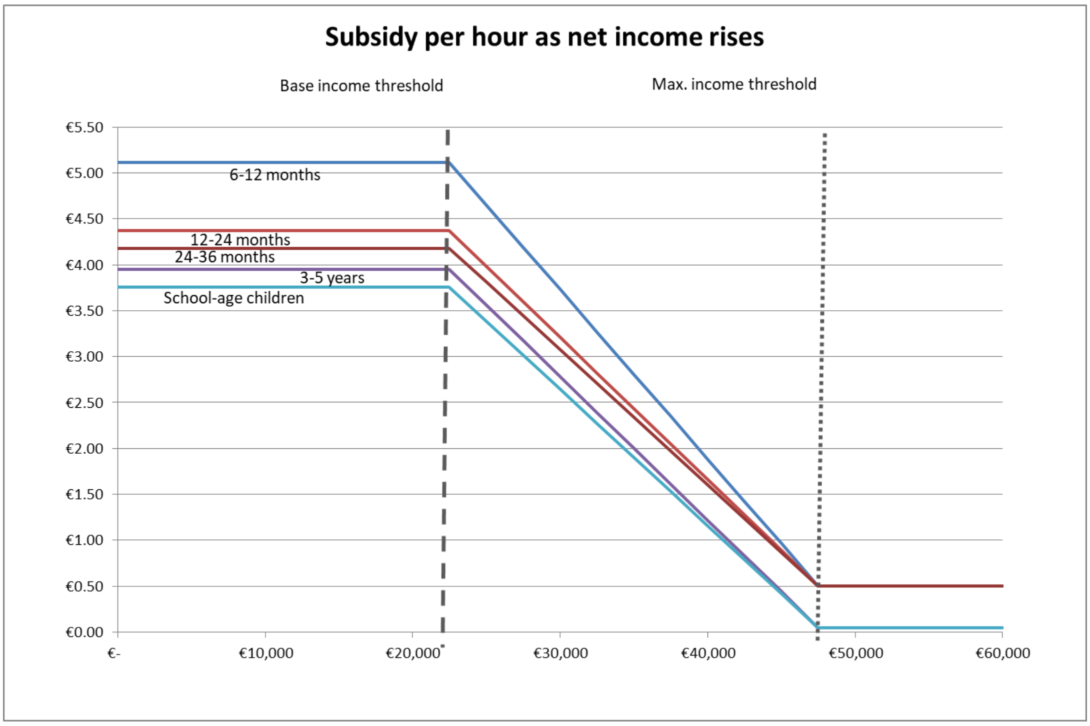
As discussed further in Section 4.3.1 (on the Impact on National Competitiveness), a significant benefit of Option 3 is the creation of positive labour market incentives, through linking the number of hours of childcare subsidy to parents' labour market participation, and through widening eligibility to lower-income working families. Improving labour market incentives is expected to support an increase in the labour supply and productivity improvements, which are in turn expected to increase tax revenues for the Exchequer, relative to Options 1 and 2.

Option 3 also offers a number of additional benefits relative to option 2:

- Assessing eligibility on the basis of income data provided by the Revenue Commissioners and the Department of Employment Affairs and Social Protection offers a fairer, more consistent and more graduated means of determining the level of subsidy to which a family is eligible than the mix of criteria used for the current schemes. Some current criteria are not directly income-related, while others, though involving a means-test, simply indicate whether or not a family's income is below a given threshold (e.g. possession of a Medical Card). In contrast, the income-assessment proposed for option 3 (the ACS) captures a family's annual income level, and the proposed ACS rules then vary the amount of subsidy awarded according to the level of family income. It is proposed

[7] Average weekly fees for full-time places rose 4%, while fees for part-time places fell 1%, and fees for sessional places rose 3% over the same time-period.

that, as income rises above a base threshold level, the rate of the taper at which the subsidy is withdrawn will be even, i.e. the subsidy-rate will have a smooth slope when plotted as a graph against family income (see chart). Families with different income levels will therefore receive different levels of subsidy under the ACS, which is only broadly the case under the existing schemes.[8]



- Moving to an income-basis for determining eligibility would have the additional benefit of reducing dependence on social welfare payments and on Medical Cards, which are currently a passport to a wide range of benefits and financial supports. Removing the link between eligibility for childcare subsidies and receipt of social welfare payments will reduce the risk of welfare dependence and poverty traps and will support labour market activation. Removing the link between eligibility for childcare subsidies and possession of a Medical Card will reduce families' reliance on Medical Card entitlements, and will provide greater policy flexibility for the ACS as the ACS will not be directly affected by changes in Government policy on Medical Cards. In contrast, under current schemes (options 1 and 2) any change in eligibility criteria for Medical Cards or GP Visit Cards may have a direct unintended impact on eligibility for childcare subsidies.

- Moving from four schemes to one scheme would simplify administration for childcare providers and simplify eligibility rules for parents.

[8] Under the current schemes, a parent with a Medical Card is entitled to a Band B subsidy in the CCS scheme (maximum €70 per week subsidy), whereas a parent with a GP Visit Card – which is awarded to families with higher income-levels than for the Medical Card – is only entitled to a Band D subsidy (maximum €50 per week). However, a recipient of a Band B subsidy (e.g. a Medical Card holder who does not receive a relevant social welfare payment) may have a family income that is lower than the recipient of CETS subsidy (e.g. a parent on an approved ETB training course but who may not have a Medical Card), but receives a considerably lower childcare subsidy (€70 rather than €145 for full-time childcare per week). In contrast, under the ACS the family with the lower income will always be awarded a higher subsidy-rate.

- An online application process would provide ease of access for parents, with parents able to determine their eligibility for subsidy at any time, including in advance of discussing their childcare needs with a childcare provider. It is proposed that the online application process will be user-friendly and that it should be possible to complete the application form via a mobile phone or tablet. The automated data-exchange with the Revenue Commissioners and the Department for Employment Affairs and Social Protection will ensure an efficient application process for the majority of applicants, avoiding any requirement for most applicants to gather and submit documentation in support of their applications.

- Unlike the current schemes (options 1 and 2) which are run on an administrative basis, option 3 involves placing the scheme on a solid, statutory basis, in particular for the purpose of ensuring a clear statutory basis for data-sharing arrangements with the Revenue Commissioners and the Department of Employment Affairs and Social Protection, for the purpose of automated income-assessments. Placing the ACS on a statutory basis will enhance transparency, giving greater clarity and certainty about the scheme's rules and parents' eligibility and entitlements.

- The design of the ACS – with variable subsidy-rates, income-thresholds, elements included/excluded in assessable income, and other scheme parameters – offers greater flexibility than current schemes (options 1 and 2) to make policy adjustments, e.g. as part of the annual Budget process, in response to economic changes. The ACS design also creates a framework for sustainable future investment, as well as offering the potential for future incorporation of the ECCE Free Pre-School Programme within the same IT framework and the same funding framework created for ACS.

- ACS creates a mechanism by which the level of subsidy can be linked to the cost of provision, reducing the risk of unintended incentives that may be created by options 1 and 2. For example, in the existing schemes the level of childcare subsidy paid is unrelated to the age of the child, which reduces the incentive for childcare providers to cater for the youngest children, for whom regulatory requirements result in higher costs of provision. Under ACS it is proposed that the level of subsidy will be linked to the age of the child. In addition, the ACS approach, in which the level of subsidy is directly linked to a model of the cost of provision, will allow further change to the structure of childcare subsidies in the light of future evidence on the cost of provision. For example, the Independent Review of the Cost of Quality Childcare, which is due for completion in mid-2018, will provide an evidence-base for future consideration of whether e.g. the geographic location of childcare services should also be factored in to the level of childcare subsidy provided.

4.3 Impacts

4.3.1 Impact on national competitiveness

Both options 1 and 2 give rise to labour market disincentives, increasing barriers to participation and progression in the labour market. The disincentive effects impact on national competitiveness through reducing the labour supply and limiting productivity improvements. In particular:

- Options 1 and 2 offer high levels of subsidy for full-time childcare where a parent is not working, as they provide the maximum subsidy available under CCS in cases

where parents are in receipt of (a) Medical Card and (b) one of a wide range of social welfare payments. For some families in this position, taking up employment would result in a loss of childcare subsidy (though a lower 'band' of subsidy may be provided for a transitional period) through removing entitlement to a social welfare payment, thus creating a disincentive to take up the employment opportunity. Similarly somebody on an ETB training course is eligible for full-time childcare subsidy under CETS, which may be lost when that person's course is ended and the person takes up employment.
- Even where some entitlement to childcare subsidy remains when a person takes up employment or seeks progression within the labour market, the small number of childcare subsidy 'bands' (recently increased from 2 to 4) means sharp falls in the level of childcare subsidy as income rises. Full-time subsidies are €145 per week on Band A, €70 per week on Band B, and €50 per week on Band C, with a maximum payment of €20 per week for children aged less than 3 where no other support is provided. While further changes to CCS could potentially involve creation of a further eligibility-band, the effect would only be to reduce but not remove the negative impact of this labour market disincentive.

In contrast, the eligibility rules for option 3 (ACS) create positive labour market incentives. In particular:
- Where a parent is engaged in neither work nor study, ACS childcare subsidies will only be available for a maximum of 15 hours per week (per child),[9] whereas childcare subsidies will be available for up to 40 hours per week for families where both parents are engaged in work or study (or one parent in the case of a one-parent family). While a parent who takes up employment may see their hourly subsidy-rate fall as a result of having higher income, the greater number of hours of subsidy available will offset this effect.
- The smooth taper for ACS subsidies removes sudden drops in childcare subsidy at particular income-levels, thus minimising disincentive effects that would otherwise arise in cases of labour market progression.
- Basing eligibility on income, rather than on social welfare payments or specified training courses, will result in increased childcare subsidies for (a) lower-income working families who are not in receipt of social welfare payment, and (b) parents who are taking part in a wider range of education and training courses, e.g. higher education courses.

Option 3 involves some labour market disincentive effects, as the withdrawal of ACS subsidy as income rises increases the marginal effective tax-rate. However, the ACS income-taper is smooth, and additional investment over time will allow adjustments (e.g. increases to the maximum income-threshold for ACS subsidies) that may reduce the taper-rate.

4.3.2 Impact on socially excluded and vulnerable groups

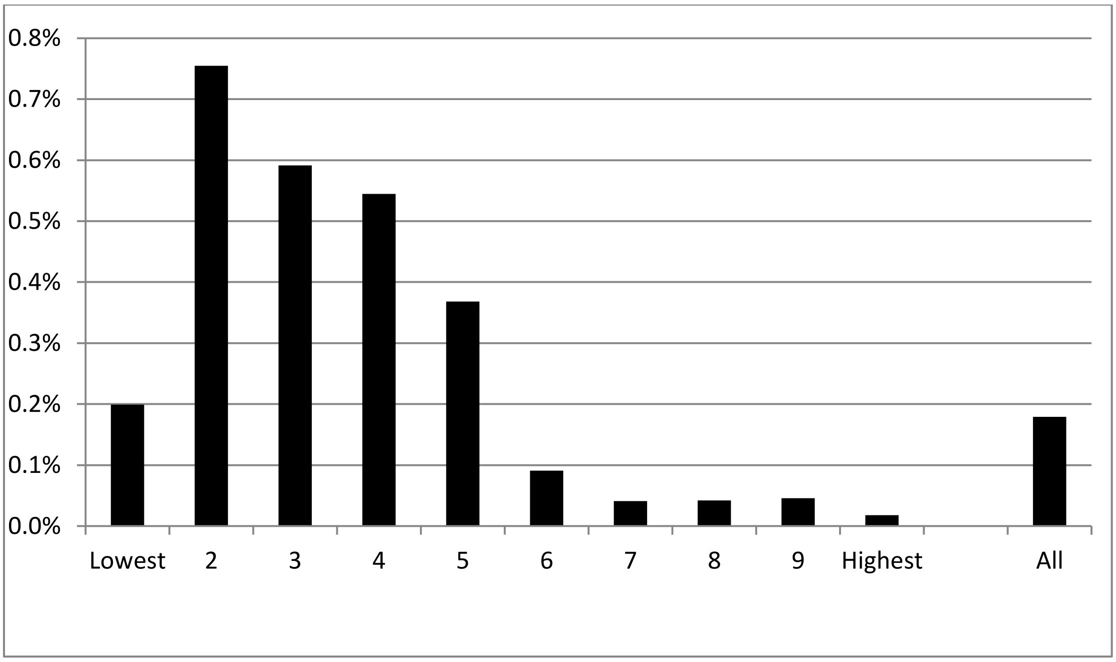
All three options focus childcare subsidies primarily on low-income families and families at risk of child poverty, with the highest levels of subsidy for families with the lowest incomes. While options 1 and 2 achieve this indirectly, through basing eligibility on parents' possession of a Medical Card or receipt of a means-tested social welfare payment, option 3

[9] Providing 15 hours per week of subsidy in such cases recognises the child development benefits of part-time participation in quality childcare.

moves to a direct assessment of family income as the basis for determining the amount of childcare subsidy to be paid.

The chart, which is drawn from ESRI analysis of the ACS using the SWITCH model (to be published as part of the ACS Spending Review), shows how ACS subsidies are expected to be distributed across the income distribution (by income decile). (As no analysis is available of existing childcare schemes by income-decile, the figure does not show the impact of ACS relative to Options 1 or 2.) The chart shows that ACS subsidies are concentrated in the lower half of the income-distribution, with a particular concentration on those in the lower income-deciles. (The relatively low effect for families in the very lowest income-decile reflects the proportion of children using registered childcare in this income-decile.)

Figure: Average Change in Disposable Income by Income Decile



Notes:
SWITCH estimates are based on age at interview; award the subsidy based on hours used of registered (centre based) childcare and childcare hours used are assumed not to vary during term/non-term time.
Subsidies that may be payable for 13/14 year olds are not captured due to a lack of childcare usage information.
It is assumed that ACS subsidies are claimed for 52 weeks of the year.
Results weighted using the SWITCH calibrated weight for 2017.
Disposable income is equivalised to take account of family size using the equivalence scale 1/0.66/0.33.

Some low-income families will see a reduction in childcare subsidies under option 3, specifically those families where a parent is not in work or training and who as a result will be eligible to a maximum of 15 hours per week of childcare subsidy. As some families in this situation currently receive full-time subsidised childcare, the impact of option 3 will be a cut in the subsidy received. Furthermore, as the ACS rules will deduct weekly hours of participation in school (or the ECCE Free Pre-School programme) from hours of ACS subsidy, a school-age child whose parent is not engaged in work or training will only be eligible for ACS subsidies outside school term-times, whereas such parents may currently also receive part-time childcare subsidies during term-times. However, the aim of these provisions within option 3 is to promote labour market incentives, given the importance of labour market participation as a route out of poverty. When parents in the examples above take up employment opportunities, the limits on hours of subsidy are removed.

In addition the ACS will provide for free childcare, on a full-time basis where required, in cases where a designated statutory body identifies a high level of need. The Draft Bill specifies a number of statutory bodies with which the Minister for Children and Youth Affairs will have the power to reach agreement on referral procedures for additional childcare support, including Tusla (where there is a concern about child welfare or child protection, or for the purpose of family support), the Department of Education and Skills (to enable teen parents to remain in education or training), and local authorities (to support homeless families and families transitioning out of homelessness).

4.3.3 Impact on the environment

Not relevant.

4.3.4 Impact on the economic market, including consumer and competition impacts

All three options involve supply-side subsidies in which the level of payment is set as a fixed rate per hour rather than as a proportion of an individual provider's fees. They thereby create an incentive for providers to keep their fees low, as any increase in fees must be fully borne by parents. In contrast, if subsidies were to be set as a percentage of fees, the State and parents would share any fee changes made by childcare providers, thus reducing the pressure on providers to keep their fees competitive. Similarly, a fixed subsidy rate removes the incentive for providers to charge extra for optional extra features of a services, as the State does not contribute to them.

In all three options competition will also be supported by the extension of childcare subsidies in 2016 to private childcare providers. The ACS will be open to all childcare providers that are registered with Tusla. While there are many home-based childminders who will not be able to take part in the ACS initially because they are not registered with Tusla, this restriction is justified on the ground that the State must be assured that services entering into agreements under the ACS are regulated and have necessary protections in place regarding child welfare and development. The Minister for Children and Youth Affairs established a working group in 2016 to develop short, medium and long-term recommendations on the reform and regulation of the childminding sector. The working group is due to report shortly, and its recommendations will inform future policy development on childminding.

While the provision of childcare in Ireland rests on a market model, there is a risk of market failure in areas of concentrated disadvantage, where there may be insufficient resources to support private provision. For this reason, there is a history of State support for non-profit community providers. However, there remains an on-going sustainability challenge for community providers operating in areas of concentrated disadvantage.[10] Both options 2 and 3 offer additional support for the sustainability of community childcare providers operating in disadvantaged areas through increasing (relative to option 1) subsidies paid for families with the lowest incomes, which should in turn reduce the volume of bad debt experienced by those providers. Option 3 offers additional scope for supporting sustainability of such providers through the flexibility built into the ACS, which could, for example, allow subsidy-rates to be

[10] See, for example, South Dublin County Partnership, Cork City Childcare Committee, Cork City Partnership and South Dublin County Childcare Committee (2016) *Breaking Point: a review of community early childhood education and care services in Cork City and South County Dublin.*

adjusted in response to levels of local disadvantage, if a clear evidence-base justified such an adjustment. The Independent Review of the Cost of Quality Childcare (due to be finalised in mid-2018) will examine the evidence-base for variations in subsidy-rates within the ACS.

4.3.5 Impact on the rights of citizens

Not relevant.

4.3.6 Compliance burden

The compliance burdens for parents and for childcare providers are the same under options 1 and 2.

For parents, option 3 offers a reduced administrative burden for the large majority of parents, who will be able to have their income assessed automatically simply on the basis of providing PPS numbers online, rather than having to gather and manually supply evidence of eligibility. For a minority of applicants, e.g. those for whom income-data provided by the Revenue Commissioners on the most recent full tax-year – or current data provided by the Department of Employment Affairs and Social Protection – does not provide a fair picture of current income, manual supply of income-evidence will be required.

For childcare providers, option 3 significantly reduces the administrative burden related to applications and the gathering of eligibility data. Under option 3, there will no longer be a requirement on childcare providers to seek eligibility evidence from parents, to provide this data to the scheme administrator, or therefore to meet data-protection requirements in relation to evidence gathered in support of applications.

4.3.7 North-South and East-West Relations

Not relevant.

5. Consultation

Consultation has taken place at several stages during development of ACS proposals:

1. As an input into the work of the Inter-Departmental Group on Future Investment in Childcare, an Open Policy Debate was held on 31 March 2015, attended by 40 stakeholders, including parents, childcare providers, county childcare committees, academics / experts, and NGOs. The Open Policy Debate examined priorities for investment.[11]

2. In April-May 2015, two online public consultations were carried out as a further input for the Inter-Departmental Group, one with parents (938 responses), the other targeted at those working in the early years and school-age childcare sectors (390 responses). The consultation focused on the overall direction of Government investment in childcare. The findings of the consultation informed the development of policy

[11] https://www.dcya.gov.ie/documents/earlyyears/20150929OpenPolicyDebateReport.pdf

recommendations across childcare provision, including family leave policies and policies on quality, affordability and access to childcare and early education.[12]

3. In October-November 2016, following publication of the ACS policy paper, an online public consultation was carried out on the detail of ACS proposals. The consultation received 4,106 responses, with both parents and childcare providers taking part. 49% of respondents identified themselves as parents or guardians, 31% as childcare providers, 22% as childcare professionals or early years educators, 6% as childminders, and 6% as others.[13]

4. Since the publication of the policy paper, consultation has been carried out with a range of key stakeholders, and the Department of Children and Youth Affairs has received submissions and held meetings with interested groups. To facilitate structured consultation with stakeholders, two consultative working groups on the ACS were established and have met on an on-going basis during 2017, one focusing on business systems and the other on communications.[14]

5. Pre-Legislative Scrutiny on the ACS took place in February 2017. The Oireachtas Joint Committee on Children and Youth Affairs held hearings with a number of stakeholders and subsequently published a report of its findings.[15]

In relation to the affordability of childcare, the 2015 consultations that fed into the Inter-Departmental Group indicated widespread concern among parents about the high cost of childcare as a barrier to employment, and support for measures to address affordability (whether through tax credits, capping of childcare fees, or childcare subsidies) as well as support for 'wraparound' care (both pre-school and after-school). Stakeholders identified affordability and quality as inter-related concerns, the need to strengthen resources for children with special needs and children from disadvantaged areas, and the need to incentivise professionalization of the childcare workforce.

The 2016 public consultation on the ACS indicated broad agreement with the design features of the ACS. The consultation questions addressed specific aspects of the ACS, and on most questions 60-70% of respondents agreed with the proposals in the ACS policy paper. There were relatively strong expectations that the scheme would succeed in making childcare more affordable, making childcare subsidies more 'user-friendly', and facilitating parental choice. Expectations were lower – particularly among childcare providers – with regard to the ACS aim of simplifying administration.

The survey found considerable support for the central elements of the ACS:

- On the proposal to base the level of childcare subsidy on the level of a family's income, 58% of respondents were in favour of the proposed approach, with 19% against.
- On the proposal to develop an IT system through which applications for childcare subsidies can be made and assessed, 79% of respondents said they would prefer

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[12] https://www.dcya.gov.ie/documents/earlyyears/20150929FutureInvestConsultReport.pdf
[13] Respondents could identify themselves in more than one category. The report will be published shortly on the DCYA website.
[14] Details of group membership and terms of reference are available at www.affordablechildcare.ie
[15] http://www.oireachtas.ie/parliament/media/committees/childrenandyouthaffairs/reports/Pre-legislative-Scrutiny-Report-on-the-Heads-of-Bill-of-the-Affordable-Childcare-Scheme-Bill-2017.pdf

parents to be able to apply for subsidies directly via an online application, as proposed for the ACS, and 70% were in favour of income-assessments being carried out through an automated data-exchange with the Revenue Commissioners and the Department of Employment Affairs and Social Protection, with 8% against this proposal.

On several ACS proposals on which reactions were more mixed, some adjustments have been made to the ACS in response to the feedback received. In particular:

- Many respondents were opposed to the proposal to limit childcare subsidies to 48 weeks per year (which was part of the wider policy of linking hours of subsidy to hours of childcare use). In response, a change was proposed by which subsidies could be extended over 52 weeks per year, with subsidy-rates reduced to ensure the change was budget-neutral. Government approved this policy change in January 2017.
- On the question of whether childcare providers should be required to publish hourly fee-rates online, while there was strong support among parents, there was more opposition than support among private childcare providers. Following the feedback in the online consultation, a dedicated workshop on the issue was carried out in spring 2017 with the consultative group on ACS business systems, and revised proposals on the issue are being considered.

The ACS policy paper had also explored the possibilities of capping childcare fees and of linking subsidy-rates to quality standards among childcare providers, though it was proposed to introduce neither measure during initial roll-out of the ACS. In the public consultation, only 31% were in favour of price controls, and 50% against. While there was more support (47%) for linking subsidy-rates to quality standards, there was also considerable opposition (29%). In line with the consultation, it will remain the case that these measures will not be introduced at the start of the ACS. However, both issues will be re-examined at a later date in the light of the Independent Review of the Cost of Quality Childcare and also further evidence on what happens to childcare fees following introduction of the ACS.

The Pre-Legislative Scrutiny report made a number of recommendations on the Heads of Bill and General Scheme for the ACS, several of which relate to aspects of the proposed methodology for income-assessment, including the treatment of: rental income, Family Income Supplement, maintenance payments, and housing costs. These recommendations have been further considered during preparation of the Draft Bill.

6. Enforcement and compliance

A scheme administrator will be appointed to administer the ACS on behalf of the Department of Children and Youth Affairs. The Department of Children and Youth Affairs will have responsibility for oversight and evaluation of the scheme, as well as regular assessment of scheme rules (e.g. hourly subsidy-rates, which may be amended as part of the annual budget process).

The scheme administrator’s roles will include assessment of applications by parents, management of registration processes, processing payments to childcare providers, undertaking reviews, establishing an independent appeals process, managing a help desk and support roles, and reporting on the scheme to the Department of Children and Youth Affairs. IT development is intended to ensure that much of the administrative work is automated, in particular the data-exchange with Revenue and DSP and the assessment of income in relation to the majority of applicants. The initial scheme administrator will be Pobal, which is already responsible for administering the current schemes. The legislation will allow for the Minister for Children and Youth Affairs to periodically review the work of the scheme administrator and to change the scheme administrator if required.

The scheme administrator's roles will include monitoring and enforcing compliance with the scheme's rules. Pobal already carries out this role in relation to compliance of childcare providers with the rules of existing childcare schemes. The ACS legislation will give this compliance function a statutory basis. In relation to parents, the role of monitoring and enforcing compliance will be new, as parents have not in the past applied directly for childcare subsidies.

Pobal's resource requirements to ensure that it can adequately carry out all its functions as scheme administrator will be assessed on an ongoing basis.

7. Review

The ACS will be subject to ongoing oversight and regular review. The role of the Department of Children and Youth Affairs in this regard will be facilitated by regular reporting requirements for the scheme administrator.

In addition, a formal evaluation will be conducted three years after introduction of the scheme.

8. Publication

This Regulatory Impact Analysis will be published on the website of the Department of Children and Youth Affairs.