Appendix C: Potential under-investment in the early years

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This appendix outlines the factors accounting for a potential under-investment in early years programmes. These include a time inconsistency between investment and payback, the lack of incentives to invest, and a lack of flexibility in budget allocation that makes it difficult to direct funding towards the early years.

Incentives for stakeholders to invest in early years are dependent on structures and accountabilities. The government is introducing major changes to these. The aim here is to evaluate incentives both under current arrangements and in light of planned changes to public service structures along with, for many stakeholders, reduced levels of funding.

A sample of key stakeholders in London were interviewed to assess how incentives to invest in early years work in practice and to gauge expectations of how incentives may change under new organisational and funding arrangements.[1] The interviews were also intended to gain a wider pragmatic understanding of all of the drivers of investments in early years including: levels and degrees of autonomy in funding, development and use of evidence to decide between projects, political influences, and current arrangements to coordinate funding amongst public sector agencies.

Main stakeholders

As noted in Section 2 of the main report there are a number of factors that mean at least some parents are unlikely to invest what, for society at large, is an optimal amount in their child's development. Therefore, there is a strong argument for the public sector to engage in early years interventions. This is to ensure that an optimal amount of investment is made in children's early years over and above the argument to intervene for purely equity reasons (in order to overcome inequalities in society).

Unlike many other areas of public sector provision, early years interventions are delivered by a number of public sector agencies/bodies covering areas such as education and social care and health services. Some of the main early years stakeholders from public, private and voluntary and community sectors include:

- Local authorities
- Children's centres
- Pre-school nurseries
- NHS strategic health authorities and primary care trusts
- General medical practitioners
- Community healthcare providers.

Local authorities (LAs) play a central role in relation to early years, both delivering interventions and commissioning other providers to deliver interventions (including private and non-profit organisations). Whilst LA roles in relation to schools are presently experiencing significant change, they are currently involved in the funding of some children and families' services and most maintained schools (where not Academies or similarly autonomous). Schools themselves have some autonomy over the proportion of resource devoted to early years, for example pre-school education.

1. *Interviews were conducted in Summer 2010 with: Judith Pettersen, Director of Children's Services & Lifelong Learning, London Borough of Hounslow; Dr. Paul Plant, Deputy Regional Director of Public Health for London; Jonathan Rallings, Principal Policy and Project Officer, London Councils; Barbara Herts, Croydon Total Place Pilot, Croydon Council.*

Children's centres, such as those in the Sure Start scheme, provide childcare and other services for families with young children. Sure Start children's centres are service hubs where children under five years of age and their families can receive integrated services and information.[2]

London hospitals – both NHS and Foundation Trusts – provide services from conception to delivery and post-natal care. Following the early months of a child's life, health services operate predominantly through general medical practitioners (GPs) and community healthcare providers (including at children's centres). Services provided by these stakeholders include immunisations, health visits and breastfeeding support[3].

The new health White Paper describes significant structural changes to the NHS and will form the basis of the forthcoming Health Bill. Changes include primary care trusts (PCTs) being wholly abolished by 2013 with GPs taking over the commissioning responsibilities formerly held by PCTs. Local authorities will take on the public health aspect of PCT business and will jointly appoint the Director of Public Health with the national public health services. A ring fenced public health budget is proposed, including a health premium to promote action to reduce health inequalities.[4]

The 'time-inconsistency' problem

The principal problem affecting optimal investment in the early years is the nature of the payback of programmes. While some of the benefits of early years interventions are realised immediately, many accrue over a longer time period and are cumulative throughout the life of the child. A 'time-inconsistency' problem exists when political leaders and public sector managers are focused on short-term outcomes which militates against considering the full long term benefits.

Most early years interventions are concerned with improving children's future life chances and preventing future spend. As a result, the full impact of such interventions accrues over the long term only. It is therefore important that a full consideration of the lifetime benefits deriving from an intervention like pre-school education, rather than just its short term impacts, is made when considering how much resource to devote to the intervention. A full consideration will allow for future cost savings to be accounted for as well as any short-term impacts.

However, in many instances the system is simply not designed to incentivise local authorities (or others) to invest for the long-term – rather the incentives are often to focus on more short-term factors (for instance political election cycles). As a result, when considering early years interventions the long-term impacts are sometimes not sufficiently considered. This potentially reduces future costs like some social, economic, health and crime related services as well as education welfare (truancy) and specialist alternative education provision. A greater emphasis on early years interventions by national government (for instance, the Allen review on Early intervention delivery) may well help in providing for improved incentives to invest in the early years.

Distribution of benefits

In the private sector the market mechanism (through the market's provision of prices) provides clear signals to business of the benefits and costs (in financial terms) of different activities. The public

2. *Sure Start Children's centres provide integrated early education and childcare, support for parents (including advice on parenting and local childcare), child and family health services (ranging from health screening, health visitor services to breast-feeding support), helping parents into work (with links to the local Jobcentre Plus and training).*
3. *The Government has recently announced a national recruitment campaign to recruit around 4,200 new health visitors (see: http://www.dh.gov.uk/en/MediaCentre/Pressreleases/DH_120742)*
4. *Department of Health (July 2010) Equity and excellence: Liberating the NHS.*

sector has no such pricing mechanism and so, in contrast to the clear profit incentive for the private sector, the aims and objectives of the public sector tend to be set by accountable democratically elected politicians who spend their budgets in order to meet certain statutory obligations. Such obligations can be viewed as one form of incentive to invest.

Importantly, however, stakeholders also have incentives to improve their performance over and above any statutory obligations. This means that stakeholders also assess the benefits that they derive from undertaking interventions considering their own obligations or performance objectives.

However, the intervening stakeholder is not typically the sole beneficiary of early year interventions. Benefits accrue to a number of different stakeholders, so they are 'external' to those undertaking the investment. The existence of these 'external' benefits means that it is likely that there will be an under-investment in early years when considered from the point of view of society as a whole.

The problem occurs because while the costs of most public programmes that are focused on early years fall to a single budget holder, the benefits from such programmes spread across many stakeholders. Examples include hospitals with responsibility for post-natal care immediately after childbirth, and pre-schools responsible for early education. If rational, public sector stakeholders will only consider the benefits that are directly related to their programme objectives when making investment decisions. This behaviour reflects the reality that different public sector organisations are essentially in competition for funding. This means considering benefits that are 'external' would compromise some of the potential gains in terms of success against performance or funding measures. Therefore, stakeholders who are each paying separately for their own early years activities will only invest in early years interventions at levels reflecting their private benefits (rather than those that would be received by the public sector or society as a whole).

If overall benefits of an early years intervention (to all stakeholders) is not taken into account, then propositions (based on comparison of benefits and costs) may appear less attractive than for other projects that are on the table. As a result, stakeholders may select other activities over early years interventions even though investments in early years provide better value for money to society as a whole. This situation is essentially a type of government failure that prevents the public sector from providing quantities of early years interventions that might be considered socially optimal and financially durable over the longer term. So the public sector intervenes initially to help overcome a problem of sub-optimal allocation of early years activities (reflecting market failure) but may be unable to do so fully when funding streams are distinct.

Area-based budgeting

The inability of stakeholders to capture the gains from expenditure they make when funding streams are distinct is a problem that initiatives such as Total Place, the new Early Intervention Grant[5] and Community Budgets[6] are designed to overcome.[7] Such schemes attempt, in part at least, to overcome the problem of lack of cooperation and collaboration between public sector organisations when they have separate performance and funding criteria.

5. *Government will end and rationalise a range of centrally directed programmes and instead streamline funding for the most vulnerable children and families in a new Early Intervention Grant to ensure local authorities have greater flexibility.*
6. *DCLG will set out plans to implement the first phase of Community Budgets in 16 areas from April 2011, by pooling departmental budgets at source for 16 places, 'to tackle families with complex needs', with the intention that all areas will be able to take this approach from 2013.*
7. *The Total Place approach considers all public sector money in a geographical area as one 'pot' and therefore should help to bring together, in one place, consideration of interventions and investment in them (including early years).*

Similarly, there can be improved coordination of primary health professionals, job advisors or community sector workers to better reach and support children and parents in universal settings, such as schools and children's centres. This may be aided, too, by more flexibility in the commissioning of services within and between local authorities across traditional boundaries of health, housing, economic development, employment and skills and childcare services.[8]

Public sector management literature highlights reasons why coordination and collaboration in the public sector is problematic. Flynn (2007) usefully summarises the source of problems, and benefits of and difficulties to encouraging joint working:

> *One of the negative consequences of trying to manage the public sector through a combination of markets and centralized management is fragmentation. Competitive units looking out for themselves are not likely to search out solutions that might involve loss of their own resources. Management systems that emphasize individual and organizational performance, defined by units of output and unit costs rather than overall results, concentrate the mind on the organization and its products and services rather than social results among the client group of wider population…*
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> *…In those cases there are several institutions involved in contributing to service delivery towards a policy objective, then some arrangement that encourages them to work together and be accountable jointly for effectiveness would be preferable to them working in isolation…*
>
> *…Experience shows that it is not a simple matter to change people from being competitive and concerned with their own organization's success and resources into enthusiastic collaborators. Setting up collaborative structures and co-ordinating mechanisms does not in itself guarantee success.*

Flynn, N. (2007) Public Sector Management. pp 185-186

To incentivise providers of early years interventions to invest at an optimal level is a significant challenge, especially when budgets are constrained or being reduced. Often providers only take a coordinated, long-term view when there is strong political direction or when there is seen to be a desperate need (for example when youth crime rates and teenage pregnancy are high). Croydon Council and its Total Place approach is an example that brought together different organisations in partnership with residents to improve youth outcomes. This Total Place project, co-led by NHS Croydon and Croydon Council involves all Local Strategic Partnership members including the police, the local hospital and the voluntary and community sector.

Stakeholder interviews also pointed to Children's Trusts in some London boroughs as a method for coordinating investment in early years. The trusts provide a platform for collaboration and investment towards the provision of children's services. However, the coverage and scale of activity that Trusts influence appears to be variable across areas. The government is now introducing more freedom and flexibility into these arrangements.[9]

8. *Mayor of London, Young Londoners – successful futures, GLA, 2010.*
9. *http://www.education.gov.uk/inthenews/inthenews/a0066362/more-freedom-and-flexibility-a-new-approach-for-childrens-trust-boards-children-and-young-peoples-plans-and-the-duty-to-cooperate*

Summary

To summarise, the key reasons for a potential under-investment in early years interventions include:

- the fact that the returns to early years interventions are long-term and so are at risk from more short-term priorities – especially when budget resources are tight/reducing
- the fact that many of the benefits are 'external' to the stakeholder undertaking the investment
- the distinct funding streams and diversity of organisations involved in the funding and delivery of early years interventions (making coordination much more problematic)
- the potential for different parts of the public sector to protect funding rather than divert some to early years interventions
- political/cultural barriers to decommissioning some services that cannot be evidenced as effective (although current public spending environment may act to counteract this barrier).

References

Department of Health (July 2010) Equity and excellence: Liberating the NHS.

Flynn, N. 2007, Public Sector Management

Mayor of London, Young Londoners – successful futures, GLA, 2010