AFFORDABLE FOR ALL:

MAKING LICENSED CHILD CARE AFFORDABLE IN ONTARIO

Final Report

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EXECUTIVE SUMMARY

This study seeks to answer the question "What is the best way to improve the affordability of licensed child care for infants, toddlers and preschoolers in Ontario?" It seeks to provide a comprehensive analysis of alternative funding and policy options and to recommend steps forward that can dramatically improve child care affordability for families.

After much consideration of evidence and ideas, our main recommendation is that the Government of Ontario should implement free child care for preschool-aged children (30 months to kindergarten age) as an immediate priority. As physical and staffing capacity are ramped up over the next few years, increased affordability for other ages should be phased in.

Making child care free for all children of preschool age will improve affordability for all families in the one or two years before kindergarten. As physical capacity for preschoolers is expanded, the Ministry will have to ensure that physical and staffing capacity for services to infants and toddlers expands as well.

In the near term, the Ministry of Education should continue, and fund more generously, the existing subsidy system. Restrictive regulations on activity requirements should be loosened.

When additional licensed child care capacity is available and qualified staff shortages have been reduced or eliminated, the child care subsidy system should be replaced with a sliding scale of payments - a $50,000 to $150,000 sliding scale - to make licensed child care affordable for children of other ages. Family income would determine the percent of full fee a family would have to pay. For children other than preschool age, families with earnings less than $50,000 would pay nothing; and families earning over $150,000 would pay 80% of the full fee. In between, families pay an increasing percentage as family income rises. We call this a $50K-$150K sliding scale.

Chapter 1: Introduction, Objectives and Principles

The first chapter introduces the study by describing the objectives and providing background information about the Government of Ontario's commitments related to child care. Chapter 1 also addresses the methods used in the study and sets out the characteristics that a reform of the early learning and child care system should have.

Chapter 2: Child Care Services in Ontario

There are over 5,300 licensed child care centres in Ontario with over 406,000 spaces for children 0-12 years. Just over 161,000 of these centre spaces are for infants, toddlers and preschoolers, often described as children 0-4 years. Nearly 106,000 of these spaces (as of

March 2017) are for children of preschool age. There are also 124 licensed home child care agencies. These agencies co-ordinate and monitor nearly 7,600 family homes (3,765 currently active) that provide care for nearly 16,000 children. Nearly 76% of Ontario's licensed child care centres are not-for-profits.

Across Ontario, there are enough licensed spaces in centres and homes for infants, toddlers and preschoolers to accommodate about 23% of all children 0-4 years of age, inclusive. In Toronto and Central Region, there is space for about 26%-27% of 0-4-year-olds.

Child care is the responsibility of the Ministry of Education, Early Years and Child Care Division. The role of the Ministry is to develop policy, to provide funding, and to update and enforce legislation and regulations in relation to child care and early years services. The Ministry licenses child care centre programs and home child care agencies.

Ontario is unique amongst Canada's provinces and territories in having a central role for municipalities in the planning, funding and administration of funding for licensed child care services. There are 37 Consolidated Municipal Service Managers and 10 District Social Service Administration Boards (CMSMs and DSSABs) that are the municipal service system managers for child care. Child care services are managed by CMSMs and DSSABs through a local service planning process. School boards and child and family programs are also important local partners in the planning and delivery of child care and early years services.

First Nations are an important partner in the delivery of on-reserve child care. First Nations can administer and operate child care and early years programs on reserve and many do. First Nations can also make agreements to exercise any powers of a service system manager on reserve.

In the spirit of the Truth and Reconciliation Commission and with funding from the Ministry, Indigenous-led projects are being established in communities across the province to increase spaces for the Indigenous population and to develop culturally-relevant programming off reserve under the auspices of The Journey Together: Ontario's Commitment to Reconciliation with Indigenous Peoples On reserve, First Nations are mainly using the funding under the Journey Together program to build new early years child and family centres.

Off reserve, CMSMs and DSSABs are participating in Journey Together projects led by local Indigenous partner organizations, to provide new culturally-appropriate stand-alone child care centres accessible and accountable to the local Indigenous population, to develop both child care centre and home child care services that are accessible to both on and off reserve children, to extend culturally-sensitive services to all residents off reserve as well as collaborating on professional development and training both on and off reserve. In recognition of the unaffordable cost of child care in urban centres across the Province, several communities are planning to establish Indigenous-focused centres with base funding so that the Indigenous population can afford to attend.

Governments in Ontario spent over $1.3 billion on child care and early years services in 2015. Allocations are provided to CMSMs and DSSABs through the Child Care Funding Formula which is designed to provide an equitable funding allocation for municipal child care service managers across the province.

The primary source of funding for child care services is parent fees. Child care fees vary by region and by child's age. For child care centres, the regional median infant fee varies from $51.00 per day in the North to $85.00 per day in Toronto. For toddlers, the range is from $42.00 to $66.00. For preschoolers, the range is from $38.00 to $52.00 per day.

The main government funding policy that affects the affordability of licensed child care services is the Ontario child care subsidy system. There are income and activity requirements to be eligible for child care subsidy; even then, subsidies may not be available if annual funding has been exhausted. Families earning less than $20,000 may be able to get a full subsidy, and families earning between $20,000 and $40,000 will pay 10% of income above $20,000. Families earning over $40,000 will pay $2,000 plus 30% of their income that is over $40,000. In general, parents need to be employed or seeking employment, or in training or education, to be eligible for child care subsidy, although there are exceptions according to child or family need. Most families earning above $100,000 per year are not eligible for financial assistance through the Ontario subsidy system under its current rules.

There are over 111,000 children 0-12 years of age who receive child care subsidies for centre-based care in Ontario. About 40% of infants who are using licensed centre care receive a subsidy, about 34% of toddlers and about 31% of the preschool-aged children who are in centres. There are nearly 260,000 children 0-12 years using licensed centre care who do not receive child care subsidy. The total number of subsidies in family home child care in Ontario in 2017 was nearly 12,000.

Chapter 3: Municipal Issues and Feedback

Municipal representatives told us that the prime challenges to the viability and stability of centres are wages, staff recruitment and retention. The expansion of full-day kindergarten has attracted many qualified child care staff where wages, benefits, and working conditions are generally better than in child care centres. This has made recruitment and retention issues in the child care sector more acute.

Across Ontario, home child care is 4%-6% of all licensed care. Municipalities are pleased with a recent supplement of $20 per day to home providers, however, there are still serious challenges in the recruitment of adequate numbers of home providers.

Affordability is the main barrier to access for parents. There are a number of other accessibility issues identified by municipalities: rural access and transportation, part-time opportunities, care for children with special needs, and care during non-traditional hours such as evenings, weekends and overnight. A further issue of accessibility is lack of parental awareness of child care subsidy funding. Public education about available funding is an important priority. Journey Together funding on First Nations reserves is mainly being used to establish new child and family centres. Accessibility to services that provide culturally-appropriate programming for the off-reserve Indigenous population is so far extremely limited, despite the fact that the large majority of Indigenous families live off-reserve.

CMSMs and DSSABs have grown into the role as caretakers of quality. Most of them have hired quality assurance coordinators, are working in the community to improve quality in their programs, introducing significantly more professional development opportunities as well as mentoring programs. About half of all CMSMs and DSSABs are using a quality measurement tool.

Municipalities were almost unanimous in suggesting that the income test for child care subsidy be made more generous. Most CMSMs and DSSABs support the provincial thresholds for for-profit funding but there needs to be some recognition that this will be more difficult to implement in areas with very high levels of for-profit operators.

The most persistent irritant between schools and municipalities concerns the “rental” or “cost recovery” rate for space in schools. In too many cases, these charges are prohibitively high, which violates the spirit of the Schools First directives. A consistent policy that allows child care to flourish in schools should be adopted.

CMSMs and DSSABs have embraced the challenge posed by the Ministry to work on expansion and are putting considerable effort into achieving their targets, often with limited staff, short timelines and absence of planning resources. The priorities to increase accessibility, expand access to fee subsidy, and work on affordability are being achieved by reducing the subsidy lists, expanding capacity through capital expansion, Journey Together and collaboration with school boards . Other initiatives include attempts to expand home child care, access to non-traditional hours, rural programs and infant programs. Some CMSMs and DSSABs are assisting affordability by using general operating grants to prevent or reduce fee increases.

The major barrier to expansion of centre-based care is the shortage of Registered Early Childhood Educators occasioned by low wages and lack of interest in the occupation by potential professionals because of those low wages.

Chapter 4: Why Public Funding of Child Care Makes Sense

Increased public funding for child care affordability has widespread support in Ontario, partly because affordable child care will help parents balance the demands of work and family life.

Affordability of child care is particularly important to mothers as child care responsibilities are often a barrier to employment and equal treatment for women.

The net cost of government child care assistance is substantially lower than its gross cost, because increases in parental employment cause increases in tax revenue and reductions in social assistance and other benefits. There may also be increased growth and productivity, multiplying the revenue effects.

The years from birth to age five are crucial ones for children's development. There is substantial and widespread evidence that early childhood education and care can be positive for children's cognitive and language development, completed education levels, employment and wages, as well as making them happy in the short run.

There is also substantial and widespread evidence that the effects of early childhood education and care are not uniform, but are heterogeneous. Policy needs to be directed towards making positive effects as strong as possible. In particular, children from lower-income backgrounds are likely to have stronger positive effects, if they are not excluded from access and quality services. Multiple dimensions of quality are key factors in child care's effects on children.

Chapter 5: The Affordability Problem

Child care fees in Ontario range from about $9,000 to over $20,000 per child per year for children 0-4 years. There is substantial regional and age variation in fees, but they are high everywhere relative to incomes, and have been rising faster than inflation.

For families that have at least one child 0-6 years and want to access licensed child care, we find the average family in Ontario would have to spend 20.8% of after-tax family income on child care or nearly 60% of the net income contribution of the main caregiving parent when employed. For families with at least one child 0-4 years, the average family would have to spend nearly one-quarter (23.5%) of after-tax family income on child care or just over two-thirds (67%) of the net income contribution of the main caregiving parent.

We consider licensed child care to be "affordable" if a family can access it for their 0-6 year-old children for less than 10% of after-tax, after-benefit family income. If licensed child care costs 10% to 19.99% of net family income, we call it "unaffordable". If purchasing licensed child care costs 20% or more of total family income after taxes and benefits, licensed child care is "completely unaffordable" for that family.

For the Caregiving Parent Affordability Measure, licensed child care is "affordable" if a family can access it for their 0-6 year-old children for less than 30% of the after-tax, after-benefit earnings contribution that the main caregiving parent would make to family income if employed (i.e., less than 30% of her net contribution). If licensed child care costs 30% to 59.99% of her net contribution, we will call it "unaffordable". If purchasing licensed child care costs 60% or more of her earnings contribution after taxes and benefits, licensed child care is "completely unaffordable" for that family. The affordability of licensed child care is closely related to child care and employment behaviour.

Using two different measures, we find that fewer than 22% of Ontario families find licensed child care to be affordable – 19% by one measure and 21.8% by the other. Affordability matters for family decisions. For families that find child care affordable, there is over 63% probability of using licensed child care and over 80% probability that the main caregiving parent is employed; for families that find child care unaffordable or completely unaffordable, the probability of being employed and using licensed child care are much lower.

Affordability is strongly related to family income, despite the efforts of the subsidy system to make licensed child care affordable for low-income families. This table shows the current situation in Ontario, taking existing funding into account.

Affordability by Family Income Level
When Using Licensed Child Care for Children 0-6 Years of Age

Expected Annual Income of the Household	Net Child Care Costs as % of After-Tax After-Benefit Family Income	Net Child Care Costs as % of After-Tax After-Benefit Income Contribution of the Main Caregiving Parent
Less than $50,000	30.8%	61.7%
$50,000 - $99,999	21.2%	69.5%
$100,000 and more	12.7%	44.2%
Total	20.8%	58.1%

With current policies and levels of affordability in Ontario, about 8% of infants use licensed child care services, about 30% of toddlers and about 37% of children of preschool age. Considering only families with employed mothers, over 12% of infants, over 42% of toddlers and 50% of preschool-aged children currently use licensed child care.

Many families combine parental care of children with employment of all parents in the household. Parents may arrange their work shifts so that this is possible (off-shifting). In these cases, the main caregiving parent will often work part-time or be self-employed in the household. There is evidence that these care decisions are strongly affected by the unaffordability of paid child care.

The unaffordability of child care affects many aspects of women's employment, hours, and pay.

Across the system, parents pay between 50%-63% of the total cost of licensed child care services in Ontario. Governments pay the rest.

Chapter 6: Different Funding Approaches (The Theory)

The objectives of a funding program for child care are multiple and complex. A child care system must be affordable, accessible and offer services and experiences of good quality. Funding should permit and promote parental employment. It should make available convenient and accessible services with hours and location that correspond to needs. The quality of early childhood education and care (ECEC) provided to children is always a central issue, because we believe that the quality of care is directly and substantially related to the effects of ECEC on children's multi-faceted development in the early years.

Quality is not easy to describe or measure, but it can be seen in curriculum frameworks to support early childhood education and care, in staff-child ratios, group sizes, training levels of early childhood educators, in the quality of the leadership and mentorship provided by senior staff, in the interactions between parents and educators and in many more ways. Quality is reflected in the resources available to educators, in the way that children from different backgrounds and with different abilities are integrated into the group, in the low rate of turnover of qualified staff.

Another dimension of government's objectives is to make sure that lower income families are particularly enabled to access quality child care services. This is important to mention for two reasons. One is that the benefits to both children and parents in lower income families can be especially large. The second reason is that lower income families are sometimes less likely than other families to be first in line when enhanced child care funding arrangements become available. Families from higher-income families should also receive their fair share of financial assistance to access good quality child care. Nearly all families have difficulty affording child care.

The discussion about supply-side vs demand-side funding is an important one. Should assistance go directly to parents, or should governments finance services, reducing the cost to parents? Should governments play an important role in enhancing the quality of services, or should governments rely on consumer choice to deal with issues of service quality?

The biggest problem with demand-side subsidies is that they provide inadequate mechanisms to ensure that parents purchase high quality care that will support children's optimal development. Since quality is the key determinant of child care's effects on children, this is a central problem.

Supply-side subsidies can be provided in a variety of ways. ECEC services can be provided directly through the public sector by various levels of government (e.g., directly-operated municipal centres) or child care services can be provided by not-for-profit providers who are rigorously monitored to encourage the maintenance of quality standards and financial reporting standards. When the services are provided by not-for-profit operators, the provision of supply-side funding for services acts to stabilize the financial position of the small organizations that are frequently the typical providers.

When services are not free, a sliding scale of fees (adjusted to family income) is often considered to be both equitable and efficient. There are two major types of sliding scale. One uses family income to determine the percent of family income that a family should pay. The second type of sliding scale uses family income to determine the percent of the full fee that a particular family has to pay.

We seek a funding approach that improves affordability of 0-4-year-old child care for families, while giving special assistance to lower-income families and maintaining or improving quality and accessibility.

The market for child care is a mix of public and private, but there is a growing public interest in keeping fees low and quality high in order to remove barriers to parental employment and increase children's access to good services.

Governments who fund child care on the demand side seek to use market mechanisms to stimulate supply and enhance quality of services.

Supply-side funding recognizes child care as a substantially regulated market, with private (largely not-for-profit) service providers, but regulated supply, quality, staff compensation and fees.

Quebec created a network of high quality not-for-profit services called CPEs (Centres de la Petite Enfance, or Early Childhood Centres). These have had important positive effects on children's development. However, because of very substantial supply shortages in the early days of Quebec's child care reforms, Quebec's system has developed in negative ways. This provides a crucial reminder that problems of phase-in and transition are at least as important as initial funding policy plans.

The Child Care Expense Deduction is a measure originally designed to provide fairer taxation of employed mothers: it shelters from taxation the part of income that pays for a legitimate work expense. Taxation of mothers would be unfair without it.

Chapter 7: What Other Jurisdictions Do

This chapter describes and analyzes funding methods and policies in other jurisdictions, highlighting positive and negative examples of interest to Ontario. The chapter discusses funding arrangements in England, Australia, New Zealand, Denmark, Norway, Sweden, Quebec, Prince Edward Island, and Manitoba.

Early years education and child care are treated separately in England. The new sliding scale in Australia is generous and has an activity requirement. New Zealand uses supply-side measures as the base of its funding of early childhood education. Denmark and Norway have very effective supply-side funding with strong municipal involvement. Sweden has a sliding scale in which the first child costs 3% of family income. There are important lessons to learn from Quebec about how funding and policy plans can go awry. There are significant examples of policy and workforce innovations in Prince Edward Islandand Manitoba.

England

England's early childhood services are systematically divided into education, on the one hand, and care, on the other. Education services for children younger than compulsory school age are largely in the public sector and often in schools. They mostly serve children 3 to 5 years of age. The central government provides funding to local authorities (i.e., municipalities) to ensure that every 3 and 4-year-old has access to a part-time nursery education.

In England, child care services are largely in the private sector, with the lion's share being for-profit services and a smaller share being not-for-profit. Child care services are viewed as being a support for parental employment, not as education, and are typically quite expensive.

Australia

Australia has a sliding scale of child care fees where families earning less than about Can$65,000 get 85% of costs covered, falling to 50% at about Can$170,000. Beyond Can$350,000 there is no child care fee assistance: assistance for fees is capped at Can$11.55 per hour, higher than most current fees. There are activity requirements to be eligible for this fee assistance. Low-income families who do not meet the activity requirements are eligible for 12 hours per week child care for each child.

Median full-time fees in Australia for children 0-5 are about Can$20,000 annually. Increased generosity of funding over the years has lowered the fees that parents have to pay, but only temporarily – the general trend is up.

New Zealand

There are a number of different types of ECEC services in New Zealand. The predominant type of teacher-led service is centre-based ECEC, which children can attend either part-time or full-time and which caters for children from birth to school age. In New Zealand, children can choose to start school any time after their fifth birthday and must start school by the time of their sixth birthday.

Most child care funding in New Zealand is provided on the supply side in order to keep parent fees low. There is also 20 hours of "free" ECEC provided to all 3- and 4-year-old children. All supply-side funding is provided through the Ministry of Education according to formulas based on cost-drivers.

Denmark

Most child care funding in Denmark is supply-side funding, provided by municipalities to child care providers. Local authorities are required to ensure that there is a child care place for every child over 26 weeks of age whose parents want one (within 4 weeks of turning 26 weeks). The central government provides block grants to local municipalities and local governments raise tax money as well to fulfill these obligations.

Most child care funding in Denmark is designed to keep parent fees relatively low. Parent fees are set annually by municipalities, and municipalities are required to fund child care providers so that parents pay no more than 25% of the actual cost of the service. There are also discounts for siblings.

Norway

There are three types of child care (known as kindergartens) in Norway. Ordinary kindergartens (barnehager) can be public or private. They offer half-day or full-day service all year round for children between 0 and 5 years of age. Family kindergartens (familiebarnehager) are based in private homes, where an assistant works with a maximum of five children, supervised and mentored by a qualified kindergarten teacher on a weekly basis. Open kindergartens (åpne barnehager) are part-time drop-in centres with programs for parents and children to participate in together, led by a qualified kindergarten teacher.

Obtaining a place in kindergarten is a statutory right for every child, but participation in ECEC is voluntary. About 50% of the centres in Norway are municipally owned and operated; the other 50% are run by private operators, most of them not-for-profit.

Most child care funding in Norway is supply-side operating funding. The government imposes a statutory fee cap on the parental fee for centre-based or family child care (NOK 2,655 per month in 2016 or about Can$418 per month or Can$4,600 per 11-month year). This means that parents cover about 15% of the cost of ECEC through parent fees. The bulk of the operating costs of ECEC are covered by government funding, that is about 85% of operating costs. About 90% of children 1-5 years of age attend child care.

A new plan provides 20 hours of free child care per week to 3-, 4- and 5-year-old children from families earning less than about Can$66,000 annually. Parents have to engage in some activity (e.g., Norwegian language courses) in order to be eligible.

Sweden

Sweden has an integrated and largely universal child care system for children younger than school age, considered as a part of the education system (but voluntary). It is designed to support employment and study activities as well as providing play-based education for children at low or zero cost to parents.

The main type of child care in Sweden is centre-based preschool or förskola. Preschool is also available as home child care. Preschool serves children 1-5 years of age (children younger than one year of age are nearly all cared for by parents receiving relatively generous parental payments). Preschool is intended to be safe, fun and instructive, and it promotes a philosophy of the equality of all individuals, particularly of girls and boys. Municipalities are responsible for ensuring that children who want to attend are provided a place in preschool – within four months of the request. Most of the preschools (81%) are municipally owned and operated. About 19% of centres are independently operated – run by parents, staff or as a business.

Central government defines goals and objectives of child care, such as the national curriculum. Municipalities play the main role in implementing policy, planning and delivering ECEC services. Municipalities also determine working conditions and pay of child care staff locally. Municipalities receive annual quality reports and pedagogical documentation from child care services

In Sweden, the parent fee depends on parental income in a scheme known as Maxtaxa. Under this scheme, parents are charged no more than 3% of household income for one child in preschool/child care up to a maximum monthly household income. The maximum a family could have to pay per month for one child in preschool is approximately Can$209 per month. For the second child, the maximum charge is another 2% of household income, and another 1% for the third.

Quebec

Quebec has a network of Early Childhood Centres and family homes that were the original heart of their system of reduced-fee child care services. The base rate for this child care is now $7.75 per day for families earning less than about $50,000. For other families, there is a sliding scale of payments rising to $21.20 per day at about $160,000 and above.

For families not using reduced-fee child care in Quebec, there is a tax credit for child care expenses – a different sliding scale of payments. Families earning less than about $35,000 will be reimbursed through the tax system for 75% of the full fee; families earning more will be reimbursed less; and families earning above about $155,000 will be reimbursed 26% of the full fee. This funding compensates parents using informal unlicensed care, as well as other types of care.

Prince Edward Island

Recently, Prince Edward Island has reorganized existing licensed child care programs into a publicly-managed network of Early Years Centres and Infant Homes in which fees are regulated, wages are based on a common salary scale, and there is sector planning, professional development and management support.

Manitoba

Manitoba has pioneered many innovations in management of a child care system. Manitoba provides base funding to services willing to become a funded facility. Funded facilities are not-for-profit centres and family homes that are willing to cap fees. Two-thirds of staff are required to have an ECE diploma, however, there are important problems recruiting sufficient staff.

Chapter 8: Different Funding Approaches – The Evidence

Which funding model would be best for Ontario? We consider several alternatives:

1. A generous sliding scale of child care fees, where all families with earnings less than $40,000 pay nothing, all families with incomes above $240,000 pay 80% of the full cost of the child care they use and, in between, families pay an increasing percentage of the full fee as their income is higher. We call this a $40K-$240K sliding scale.

2. Free licensed child care for preschool children between 2½ years of age and kindergarten. For other ages, fees are charged based on family income. For children other than preschool age, families with earnings less than $50,000 will pay nothing; and families earning over $150,000 will pay 80% of the full fee. In between, families pay an increasing percentage as family income rises. We call this a $50K-$150K sliding scale.

3. The maximum fee for child care is capped at $20 per day per child. The existing Ontario subsidy system provides financial assistance to lower-income families that cannot afford $20 per day.

4. Kevin Milligan has recently recommended adopting a tax credit for child care expenses similar to one of the types of funding that is currently available in Quebec. We model a version of his idea, with families having to pay from 25% of the full-fee at low incomes to 74% at high levels of income.

We use two different approaches to assess these policy options. One calculates the returns to employment for a parent that uses licensed child care at different levels of income. We draw charts that show how the returns to employment, after child care costs, are affected at different levels of earnings by the four policy options above, in comparison to the current subsidy system. A policy that gives higher returns to employment after child care costs is one that lowers child care cost barriers for parents.

Returns to Employment – Lone Parent Families

We look at two sample families. One is a lone parent family with a toddler, facing full child care fees of $17,000 annually. The second is a two-parent family in which one spouse is employed earning $40,000. They have two children – 2 and 3 years of age – and full child care fees would be $30,000 annually.

The existing Ontario subsidy system is important in lowering the barriers to employment for lone parent families able to access subsidies; however, this financial assistance disappears above about $85,000. For lone parent families, either of the sliding scales we are considering - $40K-$240K or $50K-$150K combined with free preschool child care - provides much stronger employment incentives than the existing subsidy system, spendable income after child care costs is equivalent (i.e., for sliding scales vs. subsidy) at very low levels of income for lone parents, and higher at all other levels of income for both lone parent and two parent families.

The Milligan tax credit for child care expenses is negative for low-income lone parent families – they do much worse than with the subsidy system. Above about $50,000, the tax credit improves employment returns, but not generally by as much as the sliding scale options.

The $20 per day per child flat fee combined with a fully-funded subsidy system improves employment returns for many families compared to the current situation. However, between about $20,000 and $90,000, it does not boost employment returns by as much as the sliding scale funding models.

Returns to Employment – Two-Parent Families

The results of these funding policies are broadly similar to the pattern seen for lone parent families when we consider the employment returns available to a parent in a two-parent family with two children who is considering a return to work.

When this parent enters the labour force she gains employment income. But as her earned income rises, her family will be eligible for less Canada Child Benefit, less Ontario Child Benefit, and she will have to pay income taxes, Canada Pension Plan payments and Employment Insurance payments. Her spouse will lose the value of the Spousal Credit, as a credit against his taxes. And, of course, she will face substantial fees for licensed child care. All of this reduces the percentage of her gross earnings that contributes to an increase in spendable income for the family, and affects the employment returns from taking a paid job.

If this family faces the full child care cost, her employment returns are likely to be negative. If she cannot earn at least $60,000 per year, there is no obvious financial reason to be employed.

The existing Ontario subsidy system will improve these returns, but for a low-earning main caregiving parent, she will still only increase the family's spendable income by 20%-30% of her gross earnings. The Ontario child care subsidy system is less helpful to this two-parent family than to a lone-parent family, largely because this family is only eligible for partial subsidy.

The tax credit performs poorly for this two-parent family – it is worse than the existing subsidy system for our two-parent family with two children unless the main caregiving parent earns $35,000 or more. And it provides lower employment incentives than other funding policies for other levels of her gross earnings.

The $20 per day per child policy, combined with a well-funded subsidy system, improves employment returns for a two-parent family better than other policies if her gross earnings are over $55,000. However, for earnings below about $40,000, this policy fares much worse than either of the sliding-scale options, and is only a modest improvement over the existing subsidy system.

Both the $40K-$240K sliding scale, and the provision of free child care for children of preschool age combined with a $50K-$150K sliding scale for children of other ages, do quite well in increasing employment incentives (reducing barriers to employment) for the main caregiving parent in a two-parent family. Free child care for preschool ages plus a sliding scale for other ages is noticeably better than the $40K-$240K sliding scale when the main caregiving parent's income is quite low.

Our strong conclusion is that either one of the sliding scale policy options is strongly preferred to either the $20 flat fee or the tax credit for child care expenses. If we care particularly strongly about lower-income families, the free preschool child care plus $50K-$150K sliding scale gets the nod.

Results from Child Care Demand and Employment Model

The second approach we use to assess these four child care funding options required the building of a software model using Statistics Canada data. This model resides in the Research Data Centre at the University of Toronto. The model forecasts child care and employment decisions of families across Ontario who responded to the National Household Survey of 2011. Child care and employment decisions are modelled statistically, so that variations in family and child characteristics as well as changes in parental incomes, child care fees, and child care policies can be used to predict child care and employment decisions. In addition, the model allows us to calculate the taxes a family will pay, the affordability of child care, the net child care price a family will have to pay, as well as the total governmental cost of any child care policy and the total tax revenue government will raise.

Simulations using this model confirm that licensed child care is distinctly unaffordable right now for many families. Families with young children (0-4) now have to spend over 23% of their after-tax family income to access licensed child care services. As compared to the income contribution that the main caregiving parent can make when she returns to employment, child care spending would be on average over two-thirds of her income.

The $40K-$240K sliding scale would transform the child care system into one that is affordable to virtually all families. Demand for all age categories of licensed child care increases dramatically in this simulation, more than doubling overall and rising to nearly six times its current level for infants. The average percent of family income that a family with children 0-4 would spend on licensed child care would now be 2.7%, and the average percent of the main caregiving parent's income contribution would be 9.5%. The gross cost to government would be $4.5 billion. Government revenues are predicted to rise by $1.3 billion in the near-term, including both federal and provincial revenues.

Making child care services free of charge for children from 2½-4 years of age would also have dramatic effects. This is combined with a $50K-$150K sliding scale for infants, toddlers and kindergarten children. Affordability is substantially improved for families in all income categories, particularly lower-income families. On average, families with children 0-4 would now pay 2.7% of after-tax family income to access licensed child care services. There are substantial increases in the demand for infant and toddler child care, and an especially large increase in the demand for preschool care in this simulation. Overall child care demand would more than double. The gross cost to government would be $4.4 billion. Government revenues are predicted to rise by $1.3 billion in the near-term, including both federal and provincial revenues.

Lowering the full fee to $20 per day per child for infants, toddlers, preschoolers and kindergarten children is combined with the maintenance and expansion of the subsidy system to provide extra assistance to low-income families. This simulation substantially improves affordability – to 3.7% of after-tax family income on average for families with children 0-4. There are substantial increases in the demand for infant and toddler care and overall demand for licensed care more than doubles. The gross cost to government would be $3.9 billion. Government revenues are predicted to rise by $1.1 billion in the near-term, including both federal and provincial revenues.

The final simulation would adopt a new provincial tax credit for child care expenses. We have chosen to model this with a continuation of the existing subsidy system; without this, as we have seen, the tax credit would have very negative effects for low-income families. Even so, this tax credit has effects on affordability that are notably less effective than for alternative funding policies. With this tax credit, families with children 0-4 would pay, on average, 7.8% of their after-tax family income to access licensed child care. Families with incomes below $50,000 would pay 8.0% of net incomes, families between $50,000 and $100,000 would pay 7.3% of income and families at $100,000 and above would pay out 6.0% of net family income. This pattern (i.e., higher % for low-income families) is opposite to those of other alternative policies. The gross cost to government would be $3.2 billion. Government revenues are predicted to rise by $0.8 billion in the near-term, including both federal and provincial revenues.

Only two of these simulations are ones that we think should be considered seriously for implementation. Both the $40K-$240K sliding scale and free child care for preschool children plus a $50K-$150K sliding scale have very positive effects on affordability and desirable distributional effects in terms of income groups and lone parent/two parent affordability.

There are, however, important problems of phase-in. There are not yet enough licensed spaces to meet all the demand that would be created. Dealing effectively with these transition issues will make it clear that the option that provides free child care for children of preschool age is the best one.

Chapter 9: Workforce Issues, Compensation and Costs

It is not possible to solve child care affordability problems without considering workforce compensation. Wage and benefit payments are by far the largest component of child care costs and, for many reasons, compensation of child care staff will rise. The government needs a strategic plan to address workforce issues in order to manage rapid expansion of the sector.

A workforce strategy would include establishing target levels of education and training, the design of a salary ladder, target compensation packages, and would deal with recruitment issues.

Taking all workers in child care centres together, the median wage level in Ontario (before minimum wage rises) is between $15 and $20 per hour. In most parts of the province, unqualified staff receive (in 2017) a wage which is very low ($11.40-$15 per hour at the median – effectively $13.40-$15 per hour because of the $2 Wage Enhancement Grant). Qualified staff receive between $15 and $20 per hour. Even supervisors' wages are not particularly high across most of the province at $20-$26.68 per hour at the median. Toronto is an exception, with hourly wages for unqualified and qualified program staff and supervisors being higher, at the median, than in the rest of the province. Ottawa is a partial exception, too.

If we compare hourly wages in other occupations to those in child care, we get a sense of the difficulties of recruiting additional qualified workers at current wages. Current child care wages appear to be competitive with other occupations when workers are 15-24 years of age. However, child care wages are distinctly uncompetitive with hourly wages paid to female workers who are 25-54 years of age in many occupations across the province.

Compensation levels need to rise in child care if expansion is going to be possible. In particular, compensation levels need to rise so that the staff that are recruited will be capable, well-qualified staff who will decide to stay in the sector.

We have developed a spreadsheet-based costs model for child care centres in Ontario that allows us to analyze different child care cost issues. Research has shown that wages and benefit costs can make up 80% or more of the cost of providing child care. However, it is important to see that staff costs are a bigger fraction of infant care costs, than of toddler or preschool costs. When we look at the low end of current wage ranges, it is a good generalization that the percent of staff costs is in the 80's for infants, the 70s for toddlers and the high 60s for preschoolers. The percentages are somewhat higher if overall wage levels are higher, but the principle remains. In other words, staff costs (wages and benefits of program staff and supervisor) are a considerably lower percentage of the cost of preschool child care than they are of infant child care.

We use the costs model to calculate the impact of a 10% increase in wages, a 5 percentage-point increase in benefits, and the impact of reaching a desirable target level of compensation for all child care workers. We also model the effect of having all contact staff as qualified Registered Early Childhood Educators.

This type of costs modelling has an important role to play in controlling costs, determining appropriate fees, and capping fees.

Manitoba, Prince Edward Island, and Saskatchewan have created policy models with some useful lessons – about salary grids, benefit packages, professional development, and caps on fees.

Chapter 10: Transitions - How to Manage Growth in the Child Care System

Based on the issues raised in this chapter, together with the analysis in the rest of this report, we recommend that implementing free child care for preschool-aged children is the immediate priority to improve affordability of licensed child care in Ontario. As physical and staffing capacity are ramped up, increased affordability for other ages should be phased in.

Ontario is in a good position to take the next steps in expanding the licensed child care system and in making it much more affordable. However, expansion will not be easy; it will bring some very large challenges.

With full implementation of either one of the sliding scales modelled, the increase in the number of children 0-4 years of age using licensed care would be nearly 200,000 and for children 0-6 (not yet in school), demand would increase by at least 275,000 children. Immediately after the announcement of a new funding policy, there is likely to be a substantial shortage of capacity relative to demand, unless the government is able to find a way to phase-in affordability over time.

There are (at least) five distinct problems of transition (or phase-in) that are important to consider:

- Physical capacity in licensed centres and homes;
- Development and management of the expanded system;
- Shortages of trained qualified staff and even of unqualified staff;
- How to ration scarce spaces and/or phase-in demand; and
- Maintaining and improving quality during the transition, including the role of for-profit child care providers in the transition and after.

Even if capacity can be rolled out very quickly, there will be some capacity constraints (i.e., shortages or excess demand) over the next five years.

Municipalities will play a central role in capacity expansion, in a development role. For this, they will need extra resources and clear targets and timelines with both capital and operating funding.

The management capacity in the sector is in some cases weak. The majority of child care centres in Ontario are managed by small- to medium-sized non-profit boards of directors, usually composed of parents. Many directors of programs have little management expertise or management qualifications.

We recommend that existing centres and home child care agencies be required to apply to have the right to provide free or reduced-fee services and receive substantial public funding from government. Existing centres and home child care agencies would sign contracts agreeing on terms such as provision of services, conditions of service, and rights to inspect in exchange for payments from municipalities for services provided.   In a similar situation in Prince Edward Island, centres with such contracts were designated as Early Years Centres as a mark of recognition of this new status. Ontario would have to develop a similar designation, as a signal of quality and regulation to parents.

As demand expands, operators will struggle to find enough qualified staff, or indeed enough staff at all. Compensation will have to rise in order to attract sufficient new staff.   The province (and municipalities) have a strong interest in structuring higher compensation to provide incentives for continuous upgrading, apprenticeships, basic training for unqualified staff, and incentives for qualified staff to make licensed child care into a career choice.

There are a number of ways of rationing spaces when there is excess demand (e.g. by geography, age of child, income group) but rationing (i.e., allocating services in a managed way) will be easier if access to dramatically improved affordability can be phased-in. Careful management of the timing of funding reforms could help with excess demand issues.

Free Preschool Child Care

In earlier chapters, we have concluded that the two sliding scale policy alternatives – a $40K-$240K sliding scale, or free child care for preschool children plus a $50K-$150K sliding scale – are better at reducing barriers to employment and improving affordability than either the flat fee ($20 per day) or tax credit approach. The free child care for preschool children policy has a distinct advantage – it would be easier to phase in. The Government of Ontario should decide, as an immediate priority, to make preschool-aged child care free for Ontario families. Preschool-aged child care is already very popular and most families seek out good quality group experiences for their children in the year or so before kindergarten. Making child care free would help all families with child care affordability in the years immediately before kindergarten.

Starting with preschool age makes sense in other ways. There is already a large licensed capacity of child care available to serve children of this age, so shortages would be less acute than for other age groups. Because the required staff:child ratio for preschoolers is 1:8, expansion of services requires fewer new staff than if, for instance, expansion was concentrated among children of toddler age, where the staff: child ratio is 1:5. It will take time and effort to ramp up both physical capacity and staff capacity. These efforts will bear more fruit more quickly for children of preschool age.

During the phase-in period for free preschool child care, the existing child care subsidy system would continue for children younger or older than preschool. As licensed capacity and staffing capacity increase, the Government should increase funding available for subsidy, and loosen some of the restrictive regulations on activity requirements so that more funding is available to improve affordability, particularly for infants and toddlers. When there is sufficient physical and staff capacity, a $50K-$150K sliding scale of funding should be implemented.

The gross cost to government of free preschool child care together with continuation of the subsidy system would be $1.6 billion. This cost is reached only when all new preschool demand is satisfied. Government revenues are predicted to rise by about $500 million in the near-term, including both federal and provincial revenues. As the restrictions and stigma of the subsidy system are loosened and as it becomes fully funded, more families would be helped and costs would rise. This option with a fully-funded subsidy system where financial assistance was available as a right would have gross costs to government of $2.6 billion with additional government revenues of about $700 million in the near-term.

Making preschool child care free will require that licensed capacity for preschool-aged children be expanded rapidly. The development and licensing of this expansion needs to be carefully managed by municipalities, so that new capacity for infants, toddlers and other ages is incorporated into newly built or renovated centres. As infant and toddler capacity is expanded, the Ministry of Education can increase funding and loosen rules on subsidy so that more families are able to afford this child care. When there is sufficient physical and staff capacity, the Government can amend legislation to provide a $50K-$150K sliding scale of funding as a right to parents.

It is highly problematic to rely on the for-profit sector as a major provider of services if you are seeking to build a quality service, and what is essentially a public service. The Ministry of Education has made it clear that coming expansion will be focused in the not-for-profit and public sectors. This is appropriate, but may be difficult.

The Government of Ontario, through the Ministry of Education, has invested substantially in improving legislation, regulations, institutions and funding of early learning and child care as well as child and family centres in Ontario over the last decade. Ontario, with the support of its capable municipalities, is in a good position to take the next steps in expanding the licensed child care system and in making it much more affordable.

CHAPTER 1: INTRODUCTION, OBJECTIVES AND PRINCIPLES

This study seeks to answer the question "What is the best way to improve the affordability of licensed child care for infants, toddlers and preschoolers in Ontario?" It seeks to provide a comprehensive analysis of alternative funding and policy options and to recommend steps forward that can dramatically improve child care affordability for families. Seemingly simple, this topic is more complicated than it first appears. This study includes a number of parts:

- A review of the evidence showing the ways in which public investment in licensed child care services makes sense if it is well-planned and implemented.
- A detailed description of child care services in Ontario, and of the funding systems that currently affect access and affordability. This includes a description and analysis of federal child benefits, of provincial child care policies and of the important role of municipalities in administering the subsidy and funding systems. It also includes a discussion of current issues related to Ontario's child care workforce.
- An analysis of the issue of child care (un)affordability and the role of current funding instruments in addressing it. An analysis of alternative instruments for addressing child care affordability and their advantages and disadvantages. This includes examining policies to improve affordability in other jurisdictions - in Canada and around the world.
- Calculation of the effects of alternative policies that could be used to improve affordability of licensed child care in Ontario. We look at the expected effects on affordability, on parental incomes, on employment, and on the costs of and revenues from different policy approaches.
- Transitioning towards new policies for improving child care affordability may not be straightforward. We discuss difficulties associated with moving towards a more affordable child care future for Ontario families and suggest remedies.
- Recommendations are discussed throughout the report and grouped at its end.

On September 12, 2016, the Government of Ontario committed itself in the Speech from the Throne to helping 100,000 more children, aged 4 and under, to access licensed child care over the next five years starting in 2017. As part of this effort, the Ministry of Education developed a Renewed Early Years and Child Care Policy Framework and Expansion Strategy. The goal of the renewed framework is to support an integrated system of child care and early years programs, guided by the principles of access, responsiveness, affordability and quality. The expansion strategy is targeted towards the child care needs of infants, toddlers and preschoolers (i.e., children from birth, or the end of parental leave, to kindergarten age).

From Fall 2016 to Winter 2017, the ministry conducted province-wide discussions with Ontario families and citizen groups. During the consultation period, families and stakeholders identified access to and affordability of licensed child care as the biggest barriers facing the system. The high cost of child care fees, and a lack of spaces have put pressure on families and parents wanting to enter or return to the labour force.

The Government, therefore, wishes to dramatically improve the affordability of early learning and child care services (licensed child care services) and to move towards an integrated and accessible system of child care and early years programs across Ontario. It has appointed me, with help from my associates, to review existing methods and consider improved methods of funding that are appropriate to a system of early learning and child care services that is affordable, accessible, of high quality, and that is available as a right to those families who wish to use it. In particular, the Government has asked me to consider the design of funding that would permit fees to be scaled to income, affordable for parents, and would encourage employment and education or training activities, taking into account activity-disincentives of the existing tax and benefit systems.

The Government wishes to hear recommendations for changes that will support an affordable, accessible, integrated, high quality system of early learning and child care services for Ontario.

1.1 People and Methods Used for This Study

Dr. Gordon Cleveland, Associate Professor Emeritus of Economics in the Department of Management, University of Toronto Scarborough was commissioned by the government to conduct this study. He has been fortunate to have the capable assistance of social policy consultant Sue Colley, M.B.A. and Economics Professor Michael Krashinsky, Ph.D., from the Department of Management, University of Toronto Scarborough.

Different methods have been used in this study to analyze the child care system in Ontario and to develop recommendations for the government on how to improve affordability. We have interviewed officials knowledgeable about child care policies and circumstances in nearly all of the municipalities that act as Service System Managers in Ontario. Most of these thorough interviews took 1-2 hours to complete.

We have also interviewed or had meetings with representatives of the Ontario Municipal Social Service Association, the Association of Early Childhood Educators Ontario, the Ontario Coalition for Better Child Care, the Home Child Care Association of Ontario, the College of Early

Childhood Educators, Nipissing First Nation, George Brown College, and Ministry of Education Program Advisors and Early Years Advisor.

The scope of this Report does not fully extend to First Nations Child Care. It is understood that the Government of Ontario is planning to engage directly in a Government to Nation negotiation with the First Nations to establish a plan for Early Learning and Child Care on Reserve. Some statistics and information have been included for clarification purposes but we explicitly do not address the funding reforms necessary for On Reserve First Nations Child Care. Indigenous families off reserve are extensively affected by the existing early learning and child care system. The Truth and Reconciliation Commission paved the way for new ways to fund and deliver child care services to the Indigenous population. Under the auspices of the Journey Together program together with Government funding, many Indigenous-led organizations (with the support of the municipalities) are creating new child care centres and child and family programs that are culturally-appropriate and dedicated to meeting the needs of the off-reserve Indigenous population.

We have analyzed data provided by the Ministry of Education to draw a picture of the component parts of the licensed child care system in Ontario. We have accessed data from a number of other sources as well, including the Childcare Resource and Research Unit's regular and detailed reports on child care in Canada (e.g., Friendly et al., 2015) as well as data in the Early Childhood Education Report and its profiles from 2014 (Akbari and McCuaig, 2014).

We have constructed a child care demand and parental employment model in the University of Toronto's Research Data Centre, using National Household Survey data on Ontario families. This model contains actual data on nearly 120,000 families that have children younger than compulsory school age in the province and who are representative of nearly 700,000 such children. The model uses data from the 2016 Labour Force Survey to project the incomes that could be earned in families with employment support from affordable child care services. The model uses the Canadian Tax and Credit Simulator (Milligan, 2016) to calculate all of the income and payroll taxes payable by these families and the child benefits for which they would be eligible. Therefore, the model allows us to calculate the disposable (i.e., after-tax, after-benefit) incomes that families have to potentially spend on child care and the net child care prices they are likely to face in different parts of the province.

This complex model allows us to calculate the affordability of licensed child care for different families in different situations and to analyze the conditions that affect the affordability of child care. We are able to run different simulated policy changes through the model. The model allows us to calculate the expected effects of each policy alternative on affordability, on parental incomes, on employment, and on the overall costs to government and the effects of increased employment on net tax revenues.

1.2 WHAT CHARACTERISTICS SHOULD A REFORM OF THE EARLY LEARNING AND CHILD CARE SYSTEM HAVE?

We begin our quest for improved child care affordability with certain principles in mind. These principles apply broadly to the nature of child care services, not just to principles of financing. It may not be possible to fully respect each one; there will likely be trade-offs. However, it is important to state the principles, because they describe the goals of our quest. In our plan for dramatically improving the affordability of licensed child care in Ontario:

1. Most (or all) families should be able to benefit from reforms.
2. No family should be made worse off.
3. Lower-income families should receive at least their proportionate share of new services. Reforms should positively promote greater access to scarce high-quality child care services for lower-income children and families and children facing different disadvantages.
4. Reforms should encourage and promote high quality child care services for children.
5. Services need to recognize the diversity of cultures, races, religions as well as sexual orientation and disability in the province of Ontario. All services should be inclusive and welcoming to the broad tapestry of origins, beliefs and experiences.
6. All the expansion should take place in non-profit or public facilities/services, with grandfathering of existing for-profit operations.
7. Reforms should make services more affordable and better quality, but should also, as much as possible, give parents more time with children.
8. Child care reforms should encourage (but not compel) parental employment or study/training.
9. Rising service costs should lead to rising quality of services (not just more expensive services).
10. Reforms should improve parents' knowledge and investments in their children; they should not primarily substitute for parental investments. Father participation should be encouraged.
11. Parents should have considerable opportunities to influence child care experiences of their children.

12. Services need to be sufficiently rich in quality and programming to support children's development.
13. Reforms should promote higher levels of compensation for child care staff both on grounds of equity and to attract the large numbers of trained and experienced staff that will be required as the system expands.

CHAPTER 2: CHILD CARE SERVICES, GOVERNANCE AND FUNDING

Chapter Summary

- This chapter provides detailed information about the child care services available to families across Ontario, the funding available to families and services, and the mechanisms and responsibilities for governance.

- Child care is the responsibility of the Ministry of Education, Early Years and Child Care Division under the Minister of Education, Indira Naidoo-Harris. The role of the Ministry is to develop policy, to provide funding, and to update and enforce legislation and regulations in relation to child care and early years services. The Ministry licenses child care centre programs and home child care agencies.

- Ontario is unique amongst Canada's provinces and territories in having a central role for municipalities in the planning, funding and administration of funding for licensed child care services. There are 37 Consolidated Municipal Service Managers and 10 District Social Service Administration Boards (CMSMs and DSSABs) that are the municipal service system managers for child care. Child care services are managed by CMSMs and DSSABs through a local service planning process. School boards and child and family programs are also important local partners in the planning and delivery of child care and early years services. First Nations are an important partner in the delivery of on-reserve child care.

- Governments in Ontario spent over $1.3 billion on child care and early years services in 2015. Allocations are provided to CMSMs and DSSABs through the Child Care Funding Formula which is designed to provide an equitable funding allocation for municipal child care service managers across the province. A portion of the spending requires a minimum cost-share requirement from municipalities; however, since 2005, new provincial investments have not required additional CMSM or DSSAB cost-sharing.

- The primary source of funding for child care services, however, is parent fees. Currently, the main funding policy that affects the affordability of licensed child care services is the Ontario child care subsidy system. There are income and activity requirements to be eligible for child care subsidy; even then, subsidies may not be available if annual funding has been exhausted. Families earning less than $20,000 may be eligible for a full subsidy; families earning between $20,000 and $40,000 will pay 10% of income above $20,000. Families earning over $40,000 will pay $2,000 plus 30% of their income that is over $40,000. In general, parents need to be employed or seeking employment, or in training or education, to be eligible for child care subsidy, although there are exceptions according to child or family need.

- First Nations can administer and operate child care and early years programs on reserve and many do. First Nations can also make agreements to exercise any powers of a service system manager. There is a large Indigenous population across the Province living off-reserve. For many years it has been alienated from the mainstream Early Learning and Child Care system - as documented in the Truth and Reconciliation Commission's Final Report. This is largely because the majority of child care programs in Ontario lack the cultural sensitivity to serve Indigenous children and because fees have been too high to afford or subsidies too hard to get. Under the auspices of a Ministry funded Journey Together program, Indigenous-led community organizations (such as Friendship Centres) are now establishing new culturally-appropriate programs (child care centres, home child care and child and family centres) under their own leadership, together with programs to provide culture sensitivity training programs across the sector. This is being accomplished with the cooperation and collaboration of the CMSM/DSSABs.

- The French Language Services Act requires the provision of French-language services to Francophone families in areas of Ontario where at least 10% of the population is francophone or where at least 5,000 Francophones are resident. Municipalities are required to follow the act in the delivery of child care funding and services.

- The Ministry of Education provides funding for Special Needs Resourcing. Special Needs Resourcing provides staff, equipment, supplies or services to support inclusion of children with special needs in licensed child care settings including home child care, camps and authorized recreation programs at no additional cost to parents / guardians. CMSMs and DSSABs are required to spend a minimum of 4.1 % of their total child care allocation on special needs resourcing. In 2015, the average percentage spent on special needs resourcing was 13.6%.

- There are over 5,300 licensed child care centres in Ontario with over 406,000 spaces for children 0-12 years. Just over 161,000 of these centre spaces are for infants, toddlers and preschoolers, often described as children 0-4 years. Nearly 106,000 of these spaces are for children of preschool age (from 30 months to kindergarten age).

- Nearly 76% of Ontario's licensed child care centres are not-for-profits.

- Child care fees vary by region and by child's age. The regional median Infant fee varies from $51.00 per day in the North to $85.00 per day in Toronto. For toddlers, the range is from $42.00 to $66.00. For preschoolers, the range is from $38.00 to $52.00 per day.

- There are over 111,000 children who receive child care subsidies in Ontario. About 40% of infants who are using licensed centre care receive a subsidy, about 34% of toddlers and about 31% of the preschool-aged children who are in centres.

- There are nearly 260,000 children using licensed centre care who do not receive child care subsidy.

- There are 124 agencies who co-ordinate the provision of home child care in nearly 7,600 approved homes. There are nearly 16,000 children in home child care. Daily fees are generally lower in home child care than in centre care. Of course, educational and training requirements as well as child-staff ratios are very different in home child care than they are for centre care.

- Across Ontario, there are enough licensed spaces in centres and homes for infants, toddlers and preschoolers to accommodate about 23% of all children 0-4 years of age. In Toronto and Central Region, there is space for about 26%-27% of 0-4-year-olds.

2.1 OVERVIEW AND PROVINCIAL GOVERNANCE

Ontario has 5,351 child care centres across the province with over 406,000 spaces available for children 0-12 years of age. There are also 124 licensed home child care agencies. These agencies co-ordinate and monitor 7,579 family homes that provide care for nearly 16,000 children. Nearly 12,000 of these children are in receipt of child care subsidy.

The legislation under which child care centres and licensed home agencies are governed is the *Child Care and Early Years Act,* 2014 (CCEYA), which came into effect on August 31, 2015. This replaced the Day Nurseries Act which had been the governing legislation for child care services since 1946. The CCEYA also regulates maximum numbers of children permitted in unlicensed child care services provided by non-relative caregivers outside the child's home. The CCEYA does not regulate nannies or sitters providing care in the child's home. Nor does it regulate private schools that provide care only for children aged 4 and older.

Historically, child care was the responsibility of the Ministry of Community and Social Services and, later, the Ministry of Children and Youth Services, but in 2010, the Ontario Government moved the policy, regulatory and funding responsibility for child care to the Ministry of Education. Reflecting the importance of early years and child care, the government appointed an Associate Minister of Education (Early Years and Child Care) – Minister Indira Naidoo-Harris – now known as the Minister Responsible for Early Years and Child Care.[1]

The role of the Ministry of Education, Early Years and Child Care Division, is to develop policy and programs in relation to child care and early years services, including child and family centres, to provide funding, update and amend legislation and regulations under the CCEYA and other related legislation such as the Education Act as required, and to monitor compliance with those acts and regulations. Centre-based child care programs and home child care agencies are licensed by the Ministry; these licences are renewed on regular basis and can be revoked for violations of child care regulations. The CCEYA also introduced stronger enforcement tools, including financial penalties associated with not meeting regulations, to support safety and quality in licenced child care programs. The duration of a licence depends on the licensing compliance history of the licensee. The licences specify the number of children in infant, toddler, preschool, kindergarten and school age groups that a program is allowed to serve at any one time.

The CCEYA also governs various types of funding available either to support child care programs in the provision of services to children, or funding to families and children who need support in purchasing licensed child care services for their children. Some of the funding (known as wage enhancement) is explicitly directed to support the wage and benefit levels of those child care staff and providers who currently receive a relatively low level of compensation.

The CCEYA regulates the minimum staff-child ratio permitted in centre care and the maximum group size; both of these vary by age category of children served. The CCEYA gives the Minister of Education the power to set regulations and standards and to periodically update regulations for health and safety, staff training, program planning and characteristics of licenced child care environments. The Ministry enforces these regulations through licensing inspections and a combination of enforcement actions such as compliance orders, administrative penalties and reclassifying a program into provisional licence status or revocation of a licence.

There are regional program advisors in seven area offices of the Ministry who are responsible for carrying out inspections of licensed child care programs and for recommending licence issuance and renewal. These program advisors follow up on complaints and serious occurrences, and monitor compliance with the legislation and regulations. The regional program advisors work under the supervision of regional managers who are appointed as directors under the legislation. Regional managers may refer files to an Enforcement Unit in

[1] As of January 2018, Minister Naidoo-Harris is the Minister of Education as well as continuing to be the Minister Responsible for Early Years and Child Care.

cases where stronger enforcement measures are required to bring the licensee into compliance with the legislation. The Ministry's Enforcement Unit is composed of designated provincial offences officers with the authority to investigate contraventions of the CCEYA. Investigators may exercise the powers of an inspector to enter licensed or unlicensed premises providing child care services to investigate their operations, or in more serious cases, the investigators may obtain and execute search warrants in order to collect evidence to lay charges.

In addition to full-day and part-day care in child care centres and home child care, the Ministry of Education funds municipalities, First Nations, school boards and non-profit organizations across the province to provide a range of child and family programs. These child and family programs are currently being transformed into EarlyON Centres effective January 1, 2018.

2.2 THE MUNICIPAL ROLE IN CHILD CARE

Ontario is unique amongst Canada's provinces and territories in having a central role for municipalities in the planning, funding and administration of funding for licensed child care services. There are 444 municipalities in Ontario, but the municipal role in child care is exercised through 37 Consolidated Municipal Service Managers (known as CMSMs) and 10 District Social Services Administration Boards (DSSABs). These bodies form the membership of the Ontario Municipal Social Services Association (OMSSA) and the Association of Municipalities of Ontario (AMO).

The consolidation of municipal service management that was begun in 1998 by the provincial government resulted in the creation of 47 CMSMs and DSSABs across Ontario. These are made up principally of upper tier municipalities in southern Ontario and District Social Service Administration Boards in northern Ontario. An upper-tier municipality is one that provides services to residents of two or more lower-tier municipalities. The upper-tier is usually either a county (such as Oxford or Wellington) or a regional municipality (such as Halton or Waterloo). Some CMSMs are single-tier municipalities such as Toronto, Ottawa or Hamilton. The CMSMs and DSSABs act as service system managers. Although most funding comes from the province, these CMSMs and DSSABs also contribute to funding. They manage the funding for, plan, manage and deliver human services including child care and early years and child care services, employment and income supports, integrated human services, and housing and homelessness prevention programs. Municipalities also influence child care locally through by-laws and requirements related to the provision of care that go beyond provincial legislation and regulatory requirements.

Child care services are managed by CMSMs and DSSABs through a local service planning process that reflects current child care legislation, regulations and policies/directives, funding guidelines outlined by the province, as well as engagement with local licensees. CMSMs and DSSABs are major decision-makers in child care delivery and child care funding, however, school boards and child and family programs are also important local partners in the planning and delivery of child care. School boards work closely with CMSMs and DSSABs in particular when planning for before- and after-school care and in determining priorities for capital investments to build new, or retrofit, school-based child care spaces. First Nations, as described later, are important partners in the delivery of child care and early years services on-reserve.

Effective January 1, 2018, child and family centres – known as EarlyON Child and Family Centres - will be managed by CMSMs and DSSABs as part of their responsibility for the service system management of child care and other human services.

For licensing purposes, the 47 CMSMs and DSSABs can be grouped into regions and it is useful to use these regions to report on main elements of Ontario’s child care services system.

- The City of Toronto is so large that it forms its own region.

- The West Toronto region includes Regional Municipality of Peel, Regional Municipality of Halton, County of Dufferin and County of Wellington.

- The Central region includes Regional Municipality of Durham, York, City of Peterborough, City of Kawartha Lakes, County of Bruce, County of Grey, County of Northumberland, County of Simcoe, and the District Municipality of Muskoka.

- The Southwest region includes City of Hamilton, City of London, Regional Municipality of Waterloo, City of St. Thomas, City of Brantford, City of Stratford, City of Windsor, Huron County, County of Lambton, County of Oxford, Municipality of Chatham-Kent, Norfolk County and Regional Municipality of Niagara.

- The East region includes City of Ottawa, City of Kingston, City of Cornwall, County of Hastings, County of Lanark, County of Renfrew, County of Lennox and Addington, United County of Leeds and Grenville, and United County of Prescott and Russell.

- For the North region, we have grouped together municipalities in the North west and the North east. The North region includes Kenora DSSAB, Rainy River DSSAB, Thunder Bay DSSAB, Algoma DDSAB, Sault Ste. Marie DSSAB, City of Greater Sudbury, Manitoulin-Sudbury DSSAB, Parry Sound DSSAB, Nipissing DSSAB, Timiskaming DSSAB, and Cochrane DSSAB.

2.3 OVERVIEW OF PROVINCE-WIDE SPENDING ON CHILD CARE, 2015

In 2015, $1.312 billion was spent by governments in Ontario on child care. Most of the funds come from the provincial government, but some is provided by municipalities. Allocations are provided to CMSMs and DSSABs through the Child Care Funding Formula which is designed to provide an equitable funding allocation for municipal child care service managers across the province. A portion of the spending requires a minimum cost-share requirement from municipalities; however, since 2005, new provincial investments have not required additional CMSM or DSSAB cost-sharing. Table 1 shows totals and breakdowns of spending. The Toronto Region stands out from others both in terms of the amount and distribution of spending. $408.4 million was spent in Toronto – 31.1% of the total. Spending in the West Toronto region summed to $184.5 million or 14.1% of the province-wide total. Spending in Central Region was $202.7 million, and in Southwest was $273.0 million; these amount to 15.4% and 20.8% of the provincial total. In the East region, a total of $158.0 million was spent on child care and in the North, $85.9 million. These are 12% and 6.5% of the provincial total.

Table 1 also shows a broad functional breakdown of expenditures for each region and in total. More detail than this is available, but this grouping facilitates a broad assessment of patterns. All factors that contribute to operating funding of centres and homes or which serve to reduce the wage burden for centres and homes are grouped under "Operating and Wages Support", except for the Wage Enhancement Grant (the allocation of which is not under municipal discretion). All types of subsidies to parents and families are grouped under "Subsidies (all)". Administration and Special Needs Resourcing are kept as stand-alone categories. Everything else is grouped in "All Other".

As Table 1 shows, municipalities in different regions both spend different amounts and allocate funding differently by function. Toronto devotes nearly 72% of its funding to subsidies. The East region allocates 56% to subsidies. All other regions allocate from 39%-47% of funding to subsidies. It is worth noting that these figures are from 2015, so patterns may be somewhat altered now.

The allocation of funds is affected by municipal priorities, but also by the number of families eligible for subsidy and needing subsidy in the local area. Toronto spends correspondingly less than other regions (a smaller share) on operating grants/wages support and more on subsidies. In 2015, Toronto allocated about 13% to operating and wages and nearly 72% to subsidies, whereas in other regions more than 20% goes to wage support and operating funding, but from about 40% to 55% to subsidies. Note that, in addition to the money shown under "operating and wages support", the province allocates funds to a Wage Enhancement Grant. In 2015, this provided $1 per hour to program staff earning less than $26.27; in 2017, this has risen to $2 for program staff earning less than $26.68.

The Wage Enhancement Grant funding also provided income support to Home Child Care Providers; providers received an increase of up to $10 per day if operating full-time or $5 per day if operating part-time, in 2015. In 2016, these amounts increased to $20 per day and $10 per day for providers operating full-time or part-time, respectively. The intent of the wage enhancement for centres and home child care is to help close the wage gap between registered early childhood educators (RECEs) working in full-day kindergarten (FDK) and in licensed child care settings, and to stabilize licensed child care operators by helping them retain RECEs and other child care program staff.

Table 1 Regional Breakdown of Expenditures by General Function, 2015 (millions of dollars and percent)

	Operating and Wages Support	Wage Enhancement Grant	Fee Subsidies including Ontario Works	Administration	Special Needs Resourcing	All Other	Total
Toronto	$52.5	$14.2	$292.6	$30.4	$13.7	$4.9	$408.4
West Toronto	$43.7	$10.7	$85.6	$18.0	$16.9	$9.5	$184.5
Central	$43.6	$13.7	$94.1	$17.7	$26.0	$7.4	$202.7
Southwest	$76.7	$13.5	$128.8	$20.9	$24.8	$8.4	$273.0
East	$34.8	$8.3	$88.2	$11.0	$10.6	$5.1	$158.0
North	$43.1	$3.2	$33.1	$7.7	$9.2	$5.3	$85.9
Total by Function	$294.4	$63.6	$722.4	$105.7	$101.3	$40.7	$1,312.4
Toronto	12.9%	3.5%	71.6%	7.4%	3.4%	1.2%	100.0%
West Toronto	23.7%	5.8%	46.4%	9.8%	9.2%	5.1%	100.0%
Central	21.5%	6.8%	46.4%	8.7%	12.9%	3.7%	100.0%
Southwest	28.1%	4.9%	47.2%	7.7%	9.1%	3.1%	100.0%
East	22.0%	5.3%	55.8%	7.0%	6.7%	3.2%	100.0%
North	50.2%	3.7%	38.5%	9.0%	10.7%	6.2%	100.0%
Total	22.4%	4.8%	55.0%	8.1%	7.7%	3.1%	100.0%

Source: Ministry of Education

2.4 FUNDING

Parent fees are the primary source of funding for child care operations in the province.

The main funding policy that influences the affordability of licensed child care for some families is the subsidy system. There is a uniform set of income and activity requirements across the province that determine whether a family is eligible for subsidy, and, if so, for how much assistance. A family may be eligible for full-subsidy or partial-subsidy, depending on the level of family income. Municipalities administer the child care fee subsidy system and specific rules and practices vary from municipality to municipality to meet local need.

Full subsidies are available to families with adjusted income that is less than or equal to $20,000 (adjusted income is very similar to total pre-tax income for most families). Partial subsidies are available at incomes above $20,000 according to a formula (i.e., the family must pay 10% of incremental income up to $40,000 and then 30% of incremental income above $40,000 up to the full price of care for all children combined). Tables 2 and 3 show the amounts of subsidy that a family would benefit from at different levels of family income and different levels of child care fees.

There are also special categories of families that may receive fee subsidy. Some families are eligible for fee subsidy because they are receiving Ontario Works. Some families are eligible for fee subsidy because they are referred by a social worker. First Nations families are not subject to the same fee subsidy requirements. There are no financial eligibility tests on reserves so that all families on reserve are eligible for subsidy.

Not all centres provide services to subsidized children. Municipalities (CMSMs and DSSABs) can restrict subsidies and/or other operating funding to centres with which they have purchase-of-service agreements and some centres choose not to enter into purchase-of-service agreements. These purchase-of-service agreements are a contractual arrangement that allows municipalities to require centres to meet accountability requirements such as certain financial, reporting and quality requirements in order to care for subsidized children or receive operating funding.

Table 2 Amount of Child Care Subsidy Available to Families at Different Incomes, For Different Assumed Fee Levels with One Child, Ontario 2017

Family Income	One Infant @ $21,000/year		One Toddler @ $17,000/year		One Preschooler @ $13,000/year		One Kindergartener @ $6,000/school year	
	Amount of subsidy	Cost as % of income	Amount of subsidy	Cost as % of income	Amount of subsidy	Cost as % of income	Amount of subsidy	Cost as % of income
$20,000	$21,000	0.0%	$17,000	0.0%	$13,000	0.0%	$6,000	0.0%
$40,000	$19,000	5.0%	$15,000	5.0%	$11,000	5.0%	$4,000	5.0%
$60,000	$13,000	13.3%	$9,000	13.3%	$3,000	13.3%	- -	10.0%
$80,000	$7,000	17.5%	$3,000	17.5%	- -	16.3%	- -	7.5%

Source: Calculations by authors

Table 3 Amount of Child Care Subsidy Available to Families at Different Incomes, For Different Assumed Fee Levels with Two Children, Ontario 2017

Family Income	Two Infants @ $42,000/year		Two Toddlers @ $34,000/year		Two Preschoolers @ $26,000/year		Two Kindergarteners @ $12,000/school year	
	Amount of subsidy	Cost as % of income	Amount of subsidy	Cost as % of income	Amount of subsidy	Cost as % of income	Amount of subsidy	Cost as % of income
$20,000	$42,000	0.0%	$34,000	0.0%	$26,000	0.0%	$12,000	0.0%
$40,000	$40,000	5.0%	$32,000	5.0%	$24,000	5.0%	$10,000	5.0%
$60,000	$34,000	13.3%	$26,000	13.3%	$18,000	13.3%	$4,000	13.3%
$80,000	$28,000	17.5%	$20,000	17.5%	$12,000	17.5%	- -	15.0%
$100,000	$22,000	20.0%	$14,000	20.0%	$6,000	20.0%	- -	12.0%
$120,000	$16,000	21.7%	$8,000	21.7%	$0	21.7%	- -	10.0%
$140,000	$10,000	22.9%	$2,000	22.9%	- -	21.4%	- -	8.6%
$160,000	$4,000	23.8%	- -	21.3%	- -	18.8%	- -	7.5%
$180,000	- -	23.3%	- -	18.9%	- -	16.7%	- -	6.7%
$200,000	- -	21.0%	- -	17.0%	- -	15.0%	- -	6.0%

Source: Calculations by authors

2.5 FIRST NATIONS CHILD CARE

Ontario has legislative authority to fund, regulate, and develop policy for child care in First Nation communities on reserve.

The Child Care and Early Years Act, 2014 (CCEYA) authorizes a First Nation or group of First Nations to establish, administer, operate and fund child care and early years programs and services. The CCEYA also authorizes the Minister and a First Nation to enter into an agreement to exercise and perform any powers or duties of a service system manager provided for under the Act.

Pursuant to O. Reg. 138/15 under the CCEYA, most fee subsidies for licensed on-reserve child care programs are cost shared on an 80% provincial / 20% First Nations basis. First Nations manage the fee subsidy system in their respective communities. The province covers 100% of other child care costs under the CCEYA.

The Ministry of Education (EDU) has transfer payment agreements with 74 First Nations and 3 transfer payment agencies for:

- **Licensed child care:**
    - Currently, 57 out of 133 First Nations have provincially-funded licensed child care in their communities, with a total capacity of 3,175 licensed child care spaces. There are also two licensed home-based child care agencies on reserve supporting a total of 31 homes (Licensing data as of March 31, 2017). These are in Akwesasne and Six Nations.
    - Ontario has increased child care funding to the 57 First Nations with existing child care programs from $17.7M in 2011-12 to $27.7M in 2017-18 ($30.8M with wage enhancement funding).
- **Ontario Works recipients**: Funding to support formal and informal child care costs for individuals participating in the full Ontario Works (OW) Program. EDU provided $964,237 in 2016-17 to 17 First Nations without licensed child care on reserve, and 30 of the 57 First Nations with licensed child care on reserve.
- **Child and family programs**: EDU currently provides approximately $712,000 to five First Nations currently delivering child and family programs on reserve.

Ontario shares some First Nations child care costs with the federal government pursuant to the 1965 Indian Welfare Agreement (IWA). The IWA is a cost-sharing agreement between the provincial and federal governments that provides for reimbursement to the province for a portion of the costs that Ontario incurs for on reserve child care (Ministry of Education), child welfare (Ministry of Child and Youth Services), Ontario Works (Ministry of Community and Social Services), and Homemakers and Nurses (Ministry of Health and Long-Term Care).

Under the IWA, the federal government reimburses Ontario for federally-approved child care costs at a notional rate of 93%. However, owing to a federal cap on total child care funding under the IWA at 1995 rates, and a narrow interpretation of ‘eligible child care expenses’, the federal government actually reimburses the province for only about 43% of Ontario’s total expenditures.

Since 2011-12 the government has increased First Nations child care funding from $17.7 million to $30.8 million in 2017-18, including $2.9 million in wage enhancements.

The Ministry provides for fee subsidies for First Nations but unlike off-reserve, there is no financial eligibility test and all children receive a full subsidy. In effect, the programs are base-funded rather than families being individually income-tested. Individual First Nations may also charge a nominal fee at their discretion.

First Nations are funded partially based on historical amounts, with some types of funding allocated through a funding formula and there are restrictions on the ability to transfer funds among categories. Unlike CMSMs/DSSABs, they do not receive the general operating grant per se but retain the historical funding formula that allocates funding separately for historical wage subsidy and pay equity, wage enhancement grants, special needs resourcing, capacity building, etc. 100% of this funding is covered solely by the Ontario Government.

Included in Ontario plans to invest more than $250 million over the next three years on programs and actions focused on reconciliation, which will be developed and evaluated in close partnership with Indigenous partners, is a commitment to:

- Increase the number of licensed child care spaces and culturally relevant programming off-reserve and to
- Expand child and family programs on-reserve and, through Indigenous and federal partners, make supports available in more communities.

The Journey Together program has been the vehicle to achieve these goals. It is derived from the Truth and Reconciliation Commission's (TRC) final report which shone a light on Canada's residential school system - a dark chapter in our history with lasting impacts that are still felt by Indigenous people today. As a result, Ontario is working with Indigenous partners to address the legacy of residential schools, close gaps and remove barriers, create a culturally relevant and responsive justice system, support Indigenous culture, and reconcile relationships with

Indigenous peoples. True reconciliation goes beyond the Truth and Reconciliation's 'Calls to Action'. The Province will continue to look to Indigenous partners for guidance and leadership.

Journey Together is available to both on-reserve First Nations and for off-reserve Indigenous-led organizations in communities across the province. On reserve, First Nations are establishing new early years child and family centres. Off-reserve, CMSM/DSSABs are participating in Journey Together projects led by local Indigenous partner organizations to provide new culturally-appropriate stand-alone child care centres accessible and accountable to the local Indigenous population. They are also developing both child care centre and home care services that are accessible to both on and off reserve children, to extend culturally-sensitive services to all residents off reserve as well as collaborating on professional development and training both on and off reserve. In recognition of the unaffordable cost of child care in urban centres across the Province, several communities are planning to establish centres with base funding so that the Indigenous population can afford to attend.

There is no capital funding available to First Nations on reserve at the present time. First Nations are awaiting the announcement of the Indigenous Early Learning and Child Care Agreement, which will be allocated solely to First Nations.

2.6 CHILD CARE IN FRANCOPHONE COMMUNITIES IN ONTARIO

The French Language Services (FLS) Act, passed in 1986, guarantees access to Government of Ontario services in French in head offices and government agencies located in or serving one or more of 26 designated areas of the province. Designated areas are those with a significant Francophone population. The Office of Francophone Affairs considers a significant Francophone population to be at least 10% of the local population or a population of over 5,000 Francophones.

In addition to offices of the Ontario government, services delivered by third parties on behalf of a government agency must be provided in accordance with the FLS Act. Although municipalities are excluded from the application of the Act for their own services, there is a transfer of responsibility regarding FLS when they deliver services "on behalf of" the Ontario government to designated areas. CMSM/DSSAB agreements with Ontario require them to have the capacity to provide services in French to Francophone parents applying for fee subsidy in designated areas. They must also have capacity to provide services in French to Francophone organizations with agreements for fee subsidy and/or operating funding and ensure that special needs resourcing services are available in French to Francophone organizations, as well as Francophone parents/guardians and their children. Where a CMSM/DSSAB does not have full capacity to provide services in French, they must submit a plan to build capacity.

Child care operators, as independent organizations, are not subject to the FLS Act. They may offer services wholly or partially in French at their discretion, regardless of whether they are located in a designated area. Some may voluntarily seek to be designated as a public service agency under the FLS Act as an expression of their commitment to providing services in French.

2.7 CHILD CARE FOR CHILDREN WITH SPECIAL NEEDS

The Ministry of Education provides funding for Special Needs Resourcing (SNR). SNR provides staff, equipment, supplies or services to support inclusion of children with special needs in licensed child care settings including home child care, camps and authorized recreation programs at no additional cost to parents / guardians. CMSMs and DSSABs are required to spend a minimum of 4.1% of their total child care allocation on SNR. In 2015, the average percentage spent on special needs resourcing was 13.6%.

CMSMs and DSSABs are encouraged to collaborate in the planning and provision of services and supports with SNR service providers, licensees, parents/guardians, schools/school board personnel, and other professionals and community service programs and agencies. CMSMs and DSSABs are encouraged to maintain strong partnerships with relevant community organizations to facilitate smooth transitions and referrals, including special needs coordinating agencies and local steering committees related to coordinated service planning and the integrated delivery of rehabilitation services, key initiatives under Ontario's Special Needs Strategy.

The CCEYA sets out the following definition for a child with special needs: a child whose cognitive, physical, social, emotional or communicative needs, or whose needs relating to overall development, are of such a nature that additional supports are required for the child.

What is now called the Special Needs Resourcing (SNR) program was established in the late 1970s by the Ministry of Community and Social Services to support children with special needs in licensed child care at no additional cost to parents/guardians. At the inception of SNR, children were in segregated programs. In the early 1990's, the province moved towards an inclusion model where children with and without special needs attended the same program.

When child care was transferred to the Ministry of Education beginning in 2010, the funding and operational policies associated with SNR (guided by the *Day Nurseries Act* (DNA) and the Service Management Guidelines) transferred over from the Ministry of Children and Youth Services (MCYS) as is. Since the transfer of SNR, the Ministry of Education has taken steps to examine SNR and address urgent issues including research, stakeholder conversations, development of a funding formula for child care, development of a draft SNR framework, gathering of SNR service delivery information from CMSM/DSSABs, and revised regulations under the CCEYA. Further work is underway as a part of the renewed approach to supporting inclusion under *Ontario's' Renewed Early Years and Child Care Policy Framework.*

Services and supports purchased through SNR funding are for children with special needs 12 years of age or under. SNR funding is intended to:

1. Hire or acquire the services of a resource teacher/consultant or supplemental staff where necessary (including salary and benefits) to support the inclusion of children with special needs;

2. Provide training for staff in regulated child care settings working with children with special needs to support inclusion; and

3. Purchase or lease specialized/adaptive equipment and supplies to support children with special needs.

Ontario EarlyON Centres (EOs) provide important special needs resources. These EarlyON Child and Family Centres (previously known as Ontario Early Years Child and Family Centres) are a place for parents and caregivers to seek information and advice about the children in their care. All EarlyON Centres are welcoming and accessible to children of varying abilities, and opportunities for early identification, screening and surveillance must be made available as required and/or requested. EarlyON Centres provide parents and caregivers with current information about available community programs and specialized services to ensure that children have access to the supports they need.

Beginning January 1, 2018, CMSMs and DSSABs may use EarlyON Child and Family Centre funding to hire or acquire the services of a special needs resource consultant to support the delivery of core services to children with special needs and their families/caregivers, specifically making connections for families to specialized services (e.g., screening, early intervention, resources and supports).

Resource teachers/consultants typically provide a wide range of services and supports for children with special needs and their families. They may support several children in multiple locations and can also provide professional learning experiences for individuals working with children with special needs in licensed child care settings and approved recreation programs. These supports may include providing child care staff with program adaptation strategies and professional development, supporting the development of individualized support plans (per O. Reg. 137/15 – section 52), conducting developmental screens, providing referrals to community agencies, providing information and resources for parents and obtaining specialized equipment as required.

A resource teacher should be a member in good standing of the College of Early Childhood Educators and have completed a post-secondary program of studies that is both theoretical and practical and that relates to the needs of children with special needs. Every licensee shall ensure that every resource teacher has a valid certification in standard first aid, including infant and child CPR, issued by a training agency recognized by the Workplace Safety and Insurance Board or otherwise approved by a director.

Under Ontario Regulation 137/15 (section 52), every holder of a license to operate a child care centre or to be an agency co-ordinating home child providers shall ensure that an up-to-date individualized support plan is in place for each child with special needs, and that the plan includes:

- A description of how the child care centre or the home child care provider will support the child to function and participate in a meaningful and purposeful manner
- A description of any supports or aids, or adaptations or other modifications to the physical, social and learning environment
- Instructions relating to the child's use of the supports or aids

The plan must be developed in consultation with a parent of the child, the child (if appropriate for the child's age) and any regulated health professional or other person who works with the child in a capacity that would allow the person to help inform the plan.

2.8 CHILD CARE CENTRE SERVICES

As of March 31, 2017, there were 5,351 child care centres licensed to provide child care services in Ontario. About 36% of centres are located in either Toronto or the West Toronto region (including Halton and Peel). The Central (including York and Durham) and Southwest regions each have about 22% of all centres in the province. About 12% of all centres are in the East region, just over 6% are in Northern Ontario. There are 76 centres (about 1.5% of all centres) located on First Nations reserves and managed by the First Nations.

Table 4 Licensed Child Care Centres Serving All Ages of Children, by Region or First Nations, Ontario 2017

Region or First Nations	Number of Child Care Centres	Percent of All Centres
Toronto	1,010	18.9%
West Toronto	912	17.0%
Central	1,195	22.3%
Southwest	1,180	22.1%
East	641	12.0%
North	337	6.3%
First Nations	76	1.4%
Total	5,351	100.0%

Source: Ministry of Education

The same basic distribution by region appears if we consider child care spaces rather than centres. About 38% of centre spaces are in Toronto or West Toronto. Another 45% are in the Central and the Southwest region. About 12% of spaces are in the East and about 5% in the North. There are over 406,000 licensed child care centre spaces across Ontario.

Table 5 Number of Licensed Centre Spaces for All Ages of Children, by Region or First Nations, Ontario 2017

Region or First Nations	Number of Child Care Spaces – Licensed Capacity	Percent of All Spaces
Toronto	79,727	19.6%
West Toronto	74,873	18.4%
Central	101,470	25.0%
Southwest	79,816	19.6%
East	47,815	11.8%
North	19,519	4.8%
First Nations	3,175	0.8%
Total	406,395	100.0%

Source: Ministry of Education.

Note that licensed capacity is not identical to enrollment. See Table 16 for centre enrollment figures.

Table 6 Number and Percent of Licensed Centre Spaces for Children 0-4 Years, by Region or First Nations, Ontario 2017

Region or First Nations	Number of Child Care Centre Spaces – Licensed Capacity	Percent of All Spaces
Toronto	39,870	24.8%
West Toronto	25,012	15.5%
Central	35,989	22.3%
Southwest	30,120	18.7%
East	19,134	11.9%
North	8,391	5.2%
First Nations	2,570	1.6%
Total	161,086	100.0%

Source: Ministry of Education
Note: 0-4 Years means spaces for children in Infant, Toddler or Preschool child care and not yet in Kindergarten before-and-after school child care.

Table 7
Number of Licensed Centre Spaces by Age Category and by Region or First Nations, Ontario 2017

Region or First Nations	Infant Spaces	Toddler Spaces	Preschool Spaces	Kindergarten B/A Spaces	School Age B/A Spaces	Total Spaces
Toronto	3,554	10,003	26,313	16,664	23,193	79,727
West Toronto	1,722	7,030	16,260	19,168	30,693	74,873
Central	2,281	9,230	24,478	23,019	42,462	101,470
Southwest	2,375	8,180	19,565	18,429	31,267	79,816
East	1,237	5,323	12,574	10,896	17,785	47,815
North	772	2,407	5,212	3,667	7,461	19,519
First Nations	290	727	1,553	192	413	3,175
Total	12,231	42,900	105,955	92,035	153,274	406,395

Source: Ministry of Education

Centres do not necessarily serve all age categories. Table 8 shows a breakdown of centres in Ontario by which age categories of children 0-4 are served. This table does not consider ages other than 0-4 years. In other words, a centre might serve only preschoolers and kindergarten children; it would be listed in this table as only serving preschool children, because we ignore services other than infant, toddler and preschool. The table tells us whether centres that serve one of these ages also serve the others or not.

There are very few centres that serve infants only, or toddlers only, or infants and toddlers only or infants and preschoolers only (in total this is less than 2% of all centres). Presumably, this happens partly because the cost of providing infant and toddler care is high and centres who specialize in these age groups are likely to face a cost/price squeeze. Further, the demand for infant and toddler care is likely to be thinner than the demand for preschool-aged care, partly because of the high fees.

As a result, most centres that provide any care for children 0-4 include the provision of care for children of preschool age (i.e., 30 months to kindergarten age). 17.5% of all centres in the province provide preschool care only; another 25.7% provide toddler and preschool care and 20.6% provide care for infants, toddlers and preschoolers. Over 34% of all centres provide no care for children 0-4 years at all.

Table 8
Number and Percent of Licensed Centres by Age Categories Served, Considering Only Spaces for Children 0-4 Years, Ontario 2017

Age Categories Served by Centre	Number of Centres	Percent of All Centres
Infants only	9	0.2%
Toddlers only	22	0.4%
Preschool only	934	17.5%
Infants and Toddlers only	44	0.8%
Infants and Preschoolers only	22	0.4%
Toddlers and Preschoolers only	1,377	25.7%
Infants, Toddlers and Preschoolers	1,104	20.6%
No Spaces for Children 0-4 Years	1,839	34.4%
Total	5,351	100.0%

Note: This table refers only to spaces for 0-4-year-old children. In other words, a centre with infants only could also have kindergarten or school aged children, but we do not record this.

Current Ontario regulations stipulate minimum staff-child ratios, minimum proportions of qualified staff, and maximum group sizes that apply to different age categories for centre care. For instance, minimum staff-child ratios are 3:10 for infants, 1:5 for toddlers, and 1:8 for children of pre-school age. Minimums for qualified staff are that one out of three must be qualified in infant rooms, one out of three in toddler rooms, and two out of three in pre-school rooms. Qualified staff must have a two-year ECE diploma from community college and be a registered member of the professional body (the College of Early Childhood Educators). Maximum group sizes are 10 for infants, 15 for toddlers, and 24 for pre-schoolers.

2.9 AUSPICE – FOR-PROFIT AND NOT-FOR-PROFIT CENTRE CARE

Most child care centres in Ontario are not-for-profit – nearly 76% of all centres. This percentage is slightly lower in Toronto, West Toronto and the Central region, where not-for-profits make up about 70% of all centres[2]. In other regions, this percentage is 80% and above. Beginning in 2017, a For-Profit- Maximum Percentage Threshold has been added to the Budget Schedule of the Service Agreement between the Ministry and the CMSM/DSSABs. The expansion of funding for for-profit centres will be limited over time.

Table 9

Number and Percentage of Licensed Child Care Centres by Auspice, by Region or First Nations, Ontario 2017

Region or First Nations	Number of For-Profit Centres	Number of Not-for-Profit Centres	Percent of Centres in Region or First Nations that are Not-For-Profit
Toronto	301	709	70.2%
West Toronto	300	612	67.1%
Central	371	824	69.0%
Southwest	169	1,011	85.7%
East	131	510	79.6%
North	25	312	92.6%
First Nations	1	75	98.7%
Total	1,298	4,053	75.7%

Source: Ministry of Education

2.10 CHILD CARE FEES

Fees for licensed child care are not uniform across the province and are not uniform even within regions or municipalities. The fee data shown below is based on the Child Care Operators' Survey of 2017. Not every centre serves every age category of children, and not every centre responded to the survey. There is not enough data on fees from First Nations on-

[2] The data source from which these figures come does not identify municipally-operated centres separately from other not-for-profits. Friendly et al. (2015) indicate that their best estimate of the number of publicly-operated centre spaces in 2014 is 5,389.

reserve centres to publish results for First Nations centres, but response rates are good in other areas.

Table 10 below shows the median full fee for infants, toddlers and preschoolers in each region. Kindergarten and school age fees refer to before-and-after school child care. In Table 10, for Toronto, we can observe that the median infant fee is $85.00 per day (or $425 per week, or over $22,000 per year). Full-day infant fees are substantially lower in other regions. Median infant fees outside Toronto range from $51.00 per day in the North to $66.95 in the West Toronto region. In other words, median weekly fees for infants outside Toronto range from $255 per week to nearly $335 per week. And, median annual full-time fees for infants range from just over $13,300 in the North to nearly $17,500 in West Toronto.

Table 10
Median Daily Fees for Full-Day Infant, Toddler and Preschool Centre-Based Child Care and Before-and-After School Care for Kindergarten and School Age Children, by Region, Ontario 2017

	Infants	Toddlers	Preschool	Kindergarten	School Age*
Toronto	$85.00	$66.00	$52.00	$31.00	$26.00
West Toronto	$66.95	$52.55	$46.25	$24.44	$23.10
Central	$57.50	$48.86	$42.84	$23.50	$21.00
Southwest	$55.45	$48.40	$42.00	$20.00	$19.20
East	$61.00	$51.00	$43.34	$20.00	$19.42
North	$51.00	$42.00	$38.00	$17.75	$18.00

Source: Ministry of Education
Note: There were too few responses to provide reliable average fees on First Nations reserves
* Children 6-9 years of age.

For each age category, Toronto fees are the highest, although the gap is greatest for infant care.

For instance, with toddler care, the median Toronto fee is $66.00 per day or $330 per week or about $17,200 per year. Median fees for toddler care elsewhere in the province range from $42 to $53 per day, or $210 to $265 per week or just over $10,900 to nearly $13,800 per year.

For preschool age children, not yet in kindergarten, Toronto's median daily fee is $52.00 per day (or $260 per week, or just over $13,500 per year). The range across the rest of the province is from $38.00 per day to $46.25 per day (or from $190 per week to just over $230 per week, or from about $9,900 per annum to about $12,000 per annum).

Our main concern is with children younger than kindergarten age, but other child care fees are relevant for the family's ability to afford licensed child care. Table 10 shows medians for kindergarten and school age fees by region. In each case, the fee is for before and after school care.

The median 200-day fee for before and after kindergarten care is $6,200 in Toronto and between $3,550 and about $4,888 in the rest of the province. On a daily basis, that is just over $30 per day in Toronto and between $17 and about $25 in the rest of the province.

Before and after school child care for school age children 6-9 years of age is a bit less expensive. As Table 10 shows, across the province, the median fee ranges from $18 to $26 per day (or $90 to $130 per week, or $3,600 to $5,200 per 200-day year.

2.11 SUBSIDIES

Subsidies provide substantial financial assistance for the costs of child care to tens of thousands of children in Ontario. The tables below indicate the total number of subsidies that are being used in licensed child care centres, by age category. The data is valid as of March 30, 2017. There may be slight undercounting because the data is provided by survey, with approximately 95% of centres responding to the survey. These totals do not include subsidies that are used to access licensed home child care.

Table 11 shows that, as of March 30, 2017, there were nearly 111,600 children receiving subsidies for licensed centre-based child care in Ontario. Of these, 44,253 were children younger than kindergarten age (0-4).

Table 11

Total Number of Subsidized Children in Centres, All Ages and Children 0-4,

Region or First Nations	Child Care Subsidies for Children 0-12 Years	Child Care Subsidies for Children 0-4 Years
Toronto	35,583	13,988
West Toronto	17,029	5,940
Central	18,545	6,244
Southwest	21,664	9,565
East	10,686	4,496
North	6,335	2,832
First Nations	1,727	1,188
Total	111,569	44,253

By Region and First Nations, Ontario 2017

Source: Ministry of Education

Table 12 shows the breakdown of subsidies in centres by the age category of children. There are about 4,060 subsidies for children less than 18 months of age in centres across the province. There are nearly three times that number of subsidies for children between 18 and 30 months of age (12,061). And there are more than twice that number (28,132) of subsidies for children of preschool age. There are approximately 24,700 subsidies for kindergarten age children and over 42,600 subsidies for school age children.

Table 12
Total Number of Subsidized Children in Centres by Age Category, By Region or First Nations Ontario 2017

Region or First Nations	Infants	Toddlers	Preschoolers	Kindergarten B/A School	School Age B/A School	Total Subsidized Children
Toronto	1,715	3,786	8,487	9,098	12,497	35,583
West Toronto	476	1,682	3,782	3,390	7,699	17,029
Central	423	1,594	4,227	4,348	7,953	18,545
Southwest	792	2,625	6,148	4,087	8,012	21,664
East	307	1,262	2,927	2,157	4,033	10,686
North	244	765	1,823	1,337	2,166	6,335
First Nations	103	347	738	267	272	1,727
Total	4,060	12,061	28,132	24,684	42,632	111,569

Source: Ministry of Education

We find that the percentage of children in centres that is subsidized varies substantially across age categories, as shown in Table 13. In Toronto, for instance, about 45%-46% of children in centres are subsidized, but that varies from 59% of infants to 40% of preschool-aged children. Across the province about 30% of all children in child care centres are currently receiving subsidy, but about 40% of all infants in centre care receive subsidy.

Table 13
Percentage of Children in Centres who are Subsidized, by Age Category, By Region or First Nations, Ontario 2017

Region or First Nations	Infants	Toddlers	Preschoolers	Kindergarten B/A School	School Age B/A School	Total Subsidized Children
Toronto	59.1%	47.3%	40.3%	48.8%	45.4%	45.5%
West Toronto	32.8%	29.3%	27.0%	25.7%	26.8%	27.0%
Central	23.4%	21.4%	21.2%	20.3%	21.1%	21.0%
Southwest	35.5%	33.7%	31.8%	23.9%	25.4%	27.8%
East	31.6%	30.9%	28.0%	23.0%	22.3%	24.9%
North	42.1%	39.5%	37.4%	33.6%	32.1%	34.9%
First Nations	68.7%	84.8%	86.8%	93.0%	93.5%	86.9%
Total	40.2%	34.1%	31.1%	29.4%	28.3%	30.1%

Source: Ministry of Education

Table 14 summarizes data on the receipt of subsidy by age category of children. The two columns show the percent of all centre-based children 0-12 who are receiving subsidy, and the percent of all children in centres 0-4 years of age who are receiving subsidy. Overall, according to this data on subsidies, about 30% of children of all ages in licensed centre-based child care have their fee lowered by the receipt of subsidy. Subsidies affect the fees of about 33% of all children younger than kindergarten age (0-4 years) using centre care.

Table 14
Percentage of Children Subsidized in Child Care Centres, All Ages and Children 0-4,

	% of children subsidized 0-12 years (centre care only)	% of Children Subsidized 0-4 Years of Age (Centre Care Only)
Toronto	43.7%	45.5%
West Toronto	28.0%	27.0%
Central	21.4%	21.0%
Southwest	32.6%	27.8%
East	29.0%	24.9%
North	38.3%	34.9%
First Nations	84.3%	86.9%
Total	30.1%	32.5%

By Region and First Nations, Ontario 2017

Source: Ministry of Education

Of course, child care subsidies are only part of the story. There are many more children using licensed child care without subsidy than those children with subsidy. Table 15 shows the number of children in each region or on First Nations reserves who are using licensed centre-based child care and are not receiving a child care subsidy. There are nearly 260,000 children paying full fees across the province. The largest number of these are using school age care, followed by children of preschool and kindergarten ages.

Table 15
Total Number of Unsubsidized Children in Centres by Age Category, By Region, Ontario 2017

Region or First Nations	Infants	Toddlers	Preschoolers	Kindergarten B/A School	School Age B/A School	Total Children
Toronto	1,185	4,214	12,593	9,563	15,013	42,568
West Toronto	976	4,053	10,240	9,776	21,051	46,096
Central	1,387	5,859	15,711	17,077	29,704	69,738
Southwest	1,436	5,158	13,209	12,991	23,496	56,290
East	665	2,819	7,541	7,203	14,015	32,243
North	336	1,170	3,047	2,648	4,590	11,791
First Nations	47	62	112	20	19	260
Total Children	6,032	23,335	62,453	59,278	107,888	258,986

Source: Ministry of Education

Finally, we tabulate the number of children in each age category and by region or First Nations reserve who are using licensed child care in 2017. This is shown in Table 16. In total in March, 2017, there were over 370,500 using licensed centre-based child care, with about 150,000 of them being school age children. About 175,000 more use preschool or kindergarten-aged centre-based child care. The remainder are in infant and toddler child care.

Table 16
Total Number of Children (Both Subsidized and Unsubsidized) in Centres
by Age Category, by Region or First Nations, Ontario 2017

Region or First Nations	Infants	Toddlers	Preschoolers	Kindergarten B/A School	School Age B/A School	Total Children
Toronto	2,900	8,000	21,080	18,661	27,510	78,151
West Toronto	1,452	5,735	14,022	13,166	28,750	63,125
Central	1,810	7,453	19,938	21,425	37,657	88,283
Southwest	2,228	7,783	19,357	17,078	31,508	77,954
East	972	4,081	10,468	9,360	18,048	42,929
North	580	1,935	4,870	3,985	6,756	18,126
First Nations	150	409	850	287	291	1,987
Total Children	10,092	35,396	90,585	83,962	150,520	370,555

Source: Ministry of Education

2.12 ONTARIO'S LICENSED HOME CHILD CARE SERVICES – IN NUMBERS

According to the 2017 Child Care Operators' Survey, there are 124 agencies licensed to co-ordinate, organize and monitor the provision of home care in Ontario. The 124 agencies are distributed across the province, as Table 17 shows.

Table 17
Distribution of Home Child Care Agencies by Region or First Nations, 2017

Region or First Nations	Number of Home Child Care Agencies	% of Home Child Care Agencies
Toronto	19	15.3%
West Toronto	15	12.1%
Central	24	19.4%
Southwest	23	18.6%
East	30	24.2%
North	11	8.9%
First Nations	2	1.6%
Total	124	100.0%

Source: Ministry of Education

Again, according to licensing data, there are 7,579 homes organized by those 124 agencies, each one capable of providing care for up to six children at a time. However, the number of homes actually active as of March 31, 2017 (as reported by the agencies) was a much smaller number – 3,765 homes.

Table 18 shows the total number of approved homes and the actual number operating in each of Ontario's regions.

Table 18
Number of Approved Homes and Active Homes Operating by Region or First Nations, 2017

	Approved Homes	Active Homes	Average Active Homes/Agency
Toronto	1,599	926	51.4%
West Toronto	745	396	26.4%
Central	958	407	18.5%
Southwest	1,588	883	40.1%
East	2,324	1,002	35.8%
North	334	145	13.2%
First Nations	31	6	3.0%
TOTAL	7,579	3,765	30.4%

Source: Ministry of Education

In most regions, the typical (i.e., median) size of an agency is between 25 and 50 homes. Toronto is an exception with the typical size being 70 homes.

However, there are some agencies that are much larger, licensed for many more homes. This pulls the average size up; as a result, the average size of an agency varies across regions from 30 homes to 84 homes. In Toronto, there are seven agencies licensed to have 100 homes or more. There is one such agency in West Toronto, one in the Central Region, and three in the Southwest region. There are seven of these large home child care agencies in the Eastern Region and none in the North or on First Nations reserves. About 15% of all licensed home agencies are licensed for 100 homes or more. However, it is also true that most agencies actually co-ordinate services through fewer homes than they are licensed for. Eight home agencies across the province currently have more than one hundred active homes.

The typical (i.e., median) size of agencies measured by the number of active homes is between 11 and 26 across the different regions in Ontario.

Most of the agencies are not-for-profit[3] agencies. Only 15 agencies across the province, or just over 12% are for-profit agencies. Further, only about 7% of approved homes and 5% of the homes actually operating are part of for-profit agencies. This varies across regions. About 40% of agencies in the West Toronto Region are for-profit and about 17% of agencies in the Central Region

Agencies have reported on how many of their homes provide care for infants, toddlers, preschoolers, kindergarten-age children and school age children. This data is summarized by region in the table below.

Table 19
Number of Children Using Home Child Care in Different Age Categories by Region or First Nations, 2017

	Infants	Toddlers	Pre-Schoolers	Kindergarteners	School Age	Children 0-4 Years	All ages
Toronto	451	521	761	1,617	991	1,733	4,341
West Toronto	345	226	297	255	347	868	1,470
Central	237	491	584	360	378	1,312	2,050
Southwest	464	566	956	797	568	1,986	3,351
East	505	675	1,080	735	843	2,260	3,838
North	90	200	224	182	147	514	843
FN	2	8	7	5	8	17	30
Total	**2,094**	**2,687**	**3,909**	**3,951**	**3,282**	**8,690**	**15,923**

Source Ministry of Education

Regulations for Home Child Care require qualifications (i.e., RECE) for home visitors, who must visit each home at least 4 times per year. However, individual home child care providers have no requirement for qualifications in early childhood education. The maximum number of children that can be cared for in a home is 6 children under 13 years of age (including the care-giver's children not yet attending full-day kindergarten or grade school). In general, there cannot be more than two of those children who are less than two years of age.

[3] Directly operated agencies are included in not-for-profit.

2.13 SUBSIDIES IN HOME CHILD CARE

The total number of subsidies in family home care in Ontario in 2017 was 11,928. There were 3,995 children using home care without subsidy; in total (in March 2017) 15,923 children were in home child care.

Of the total subsidies, 5,545 were held by children younger than kindergarten age. Over 1,100 were infants, about 1,700 were toddlers and 2,692 were of preschool age.

Table 20
Total Subsidies in Home Care for Infants, Toddlers, Preschoolers, Kindergarten Children, and School Age Children, by Region, March 2017

	Infant Subsidies	Toddler Subsidies	Preschool Subsidies	Kindergarten Subsidies	School Age Subsidies	Total Subsidies 0-4	Total Subsidies 0-12
Toronto	273	368	589	1,516	963	1,230	3,709
West Toronto	183	139	180	222	311	502	1,035
Central	89	289	356	276	313	734	1,323
Southwest	292	378	722	663	538	1,392	2,593
East	247	407	710	558	767	1,364	2,689
North	57	130	128	147	98	315	560
FN	0	1	7	5	6	8	19
Total	**1,141**	**1,712**	**2,692**	**3,387**	**2,996**	**5,545**	**11,928**

Source: Ministry of Education

Table 21

	Infants - No Subsidy	Toddlers – No Subsidy	Preschoolers – No Subsidy	Kindergarten – No Subsidy	School Age – No Subsidy	Children 0-4 – No Subsidy	Children 0-12 – No Subsidy
Toronto	178	153	172	101	28	503	632
West Toronto	162	87	117	33	36	366	435
Central	148	202	228	84	65	578	727
Southwest	172	188	234	134	30	594	758
East	258	268	370	177	76	896	1,149
North	33	70	96	35	49	199	283
FN	2	7	0	0	2	9	11
Total	**953**	**975**	**1,217**	**564**	**286**	**3,145**	**3,995**

Total Children in Home Care without Subsidy, by Age Category and by Region, March 2017

Source: Ministry of Education

2.14 FEES BY REGION AND AGE CATEGORY IN HOME CHILD CARE

Fees in regulated home child care appear to be considerably lower than in centre-based care, particularly for infant care. As Table 20 shows, the median daily fee for full-time care in a home for an infant is just over $50 in Toronto and the median fee is between $41 and $44 per day in other regions. That amounts to about $13,500 for a full year of infant care in Toronto and less than $11,500 outside Toronto. Of course, educational and training requirements as well as staff-child ratios are very different in home child care and centre care.

Table 22
Median Daily Fees in Child Care Homes for Full-Day Infant, Toddler and Preschool Child Care and Before-and-After School Care for Kindergarten and School Age Children, by Region, Ontario 2017

	Infants	Toddlers	Preschool	Kindergarten	School Age*
Toronto	$51.80	$51.80	$42.33	$31.38	$34.40
West Toronto	$44.00	$43.00	$42.00	$30.00	$27.28
Central	$42.00	$41.00	$38.00	$26.00	$36.25
Southwest	$43.00	$42.58	$40.00	$23.30	$30.00
East	$44.50	$43.10	$42.79	$21.30	$22.20
North	$41.00	$37.00	$35.53	$17.00	$30.00

Source: Ministry of Education
* Children 6-9 years of age.

Table 22 shows that the median fee in a child care home for toddlers is very nearly the same as for infant care, either in Toronto or in other regions.

The median fee for full-time home child care for preschool aged children (between 30 months and kindergarten eligibility) is lower. The median fee in Toronto is a little over $42, or about $11,000 on an annual basis. In other regions, the median fee is between $35 per day and $43 per day, or between about $9,100 and $11,300 annually.

Before and after school care in home child care for kindergarten-aged children costs just over $31 per day at the median in Toronto (about $6,300 for the school year). In other regions, the median kindergarten before and after school fee for home care is between $17 a day ($3,400 for the school year) and $30 a day ($6,000 for the school year).

The median fees are broadly similar for before and after school home child care for children aged 6-9 years, varying from $22 to $36 by region. On a school year basis, that is $4,400 to $7,200 per year.

2.15 CENTRE AND HOME ENROLLMENT BY MUNICIPALITY

Reporting by region obscures details at the municipal level. It is useful to tabulate the total number of children currently (i.e., March 31, 2017) in centres or home child care in each of the 47 CMSM/DSSABs in Ontario. Table 23 does so.

Table 23
Children 0-4 Years of Age in Child Care Centres and Home Care by Municipality, 2017

Region	Municipality	Children 0-4 years in Centres	Children 0-4 years in Homes
Toronto	Toronto	39,870	1,733
West Toronto	Dufferin	603	22
	Halton	9,474	126
	Peel	13,047	677
	Wellington	1,888	43
	Total	25,012	868
Central	Bruce	556	134
	Durham	7,875	519
	Grey	791	190
	Kawartha Lakes	518	
	Muskoka	359	30
	Northumberland	628	28
	Peterborough	1,245	172
	Simcoe	3,982	273
	York	20,035	290
	Total	35,989	1,636
Southwest	Brantford	1,244	152
	Chatham-Kent	1,172	
	Hamilton	5,931	283
	Huron	483	36
	Lambton	1,131	40
	London	5,034	255
	Niagara	4,066	193
	Norfolk	588	51
	Oxford	635	28
	St. Thomas	711	37

	Stratford	502	15
	Waterloo	4,402	775
	Windsor	4,221	121
	Total	30,120	1,986
East	**Cornwall**	774	36
	Hastings	1,113	103
	Kingston	1,835	40
	Lanark	526	30
	Leeds and Grenville	741	45
	Lennox and Addington	282	42
	Ottawa	12,268	1,822
	Prescott and Russell	885	107
	Renfrew	710	35
	Total	19,134	2,260
North	**Algoma**	456	
	Cochrane	969	71
	Greater Sudbury	2,260	44
	Kenora	548	
	Manitoulin – Sudbury	278	11
	Nipissing	1,098	117
	Parry Sound	190	73
	Rainy River	199	
	Sault Ste. Marie	854	79
	Thunder Bay	1,151	39
	Timiskaming	388	80
	Total	8,391	514
GRAND TOTAL		158,516	8,997

Note: In addition, there are 2,570 children 0-4 years of age in centres on First Nations Reserves and 17 children in home child care on reserve.

2.16 CHILD POPULATION

If we take the number of 0-4 year-old children across Ontario (that is the number of children less than five years of age), they are divided by regions approximately as shown below in 2017. Taking the data on licensed spaces and children in centres and homes, we can calculate the percent of young children in each region and in total that can be served in licensed care. On average, 23% of infants, toddlers and preschoolers can be served in licensed child care. Toronto and Central regions have capacity to serve more than this percent, other regions less.

Table 24
Number of Children and Child Care Spaces 0-4 Years of Age

Regions	Number of Children 0-4 Years of Age	Number of Licensed Spaces for Infants, Toddlers and Preschoolers*	Number of Spaces for Infants, Toddlers and Preschoolers as a % of Number of Children 0-4 in Each Region
Toronto	153,329	41,603	27.1%
West Toronto	134,316	25,880	19.3%
Central	146,622	37,301	25.7%
Southwest	171,634	32,106	18.7%
East	93,312	21,394	22.9%
North	39,676	8,905	22.4%
Total	738,889	169,776	23.0%

in each Region, Ontario 2017

Source: Ontario Population Projections Update 2015-2041, Ontario Ministry of Finance (2016), calculations by authors; and space data provided by Ministry of Education.

Note: In the population figures, the number of children 0-4 means the number of children younger than their fifth birthday. The number of child care spaces 0-4 means the number of spaces available for children not yet in kindergarten. Some children enter kindergarten as early as three years, eight months. Others do not enter kindergarten until four years, seven months.
*This is the sum of licensed capacity in centres and enrollment in active homes as of March 31, 2017

The figures in the table are from a population projection from the Ontario Ministry of Finance (2016). Since then, some data on population has become available from the 2016 Census, collected by Statistics Canada. The count of 0-4 children in Ontario from the Census is lower than the Ministry of Finance projection at 695,875 (or 139,175 on average in every birth year cohort). 582,240 of these children are in two parent families and 107,090 are in single parent families (there are a few in "other" families).

We need to ask whether the number of children between birth and age four inclusive is truly the population group we are interested in. If our purpose is to determine the number of children who are potential users of infant, toddler and preschool child care in Ontario, there are some important caveats.

Children do not typically move beyond the age for preschool child care precisely at the moment they cease being four years of age. Some children enter Junior Kindergarten at 3 years, eight months old. Others enter Junior Kindergarten at up to 4 years, seven months of age. All children become eligible to enter JK in September of the calendar year in which their fourth birthday occurs.

Because children enter Junior Kindergarten at only one point in the year, the size of our population base of interest (i.e., the number of children in Ontario not yet eligible for Junior Kindergarten) varies over the year. On September 1st, all children who already are 4 years of age or will be 4 years of age by December 31st will enter Junior Kindergarten. That is one year's worth of children – nearly 140,000 children in 2017 in Ontario. This means that on September 1st, all children who are less than 3 years 8 months of age, will still be eligible for child care for infants, toddlers or preschoolers. That would be about 510,300 children.

Anyone older than that is eligible for kindergarten and therefore generally does not stay in preschool child care (there are some exceptions). Each month of the next twelve months, nearly 11,600 children would be born and soon could potentially enter licensed child care. By the time of the next August 31st, that would amount to nearly 140,000 additional children. Therefore, the total of children eligible for pre-kindergarten child care would, by the next August 31st, mount up to nearly 649,500 children.

In essence, over the course of the year and in any month, there would be about 209,000 children eligible for infant care (although many would be cared for by parents on maternity/parental leave[4]). In every month, there would be nearly 140,000 children eligible for toddler care. However, the number of children eligible to be in preschool child care classrooms (i.e., from 30 months of age till JK eligibility) would vary over the year from a minimum of about 162,400 in September to about 301,500 by the next August.

[4] CANSIM data from August 2017 shows that in every month of the last year, from 80,000-82,000 parents in Ontario have been receiving EI Benefits for maternity or parental leave. Others will take unpaid maternity or parental leave.

Note however, that the detail involved in this section is not completely reflected in the common terminology used in the child care sector. When people are referring to children who are younger than kindergarten age who are potential users of infant, toddler and preschool child care, they are typically called children 0-4 years of age. The terminology is not exact but it is convenient. We will often use it. It is more precise to refer to “children younger than kindergarten age” and sometimes we will use this terminology.

CHAPTER 3: The Municipal Role in Managing The Child Care System

Chapter Summary

- Municipalities are central to the administration of funding, planning, and development of licensed child care services in Ontario. There are 47 Service System Managers – Consolidated Municipal Service Managers (CMSMs) and District Social Service Administration Boards (DSSABs) – who carry these responsibilities. We have conducted lengthy interviews with representatives of 44 out of these 47 municipalities.

- This chapter describes experiences, experiments, ideas and concerns of these municipalities. It summarizes information about centre-based care, home child care, accessibility, quality, administration of the subsidy system, auspice of operators, relationships between municipalities and school boards, expansion plans, problems associated with expansion, and municipal opinions about solutions to affordability problems.

- Municipal representatives told us that the prime challenges to the viability and stability of centres are wages, staff recruitment and retention. The expansion of full-day kindergarten has attracted many qualified child care staff; wages, benefits, and working conditions are generally better than in child care centres. This has made recruitment and retention issues in the child care sector more acute. Too many staff positions are filled currently with “Director’s Approvals”, meaning staff that do not have all of the regulated training or experience requirements.

- The Wage Enhancement Grant is recognized as a major step forward in this context, providing a wage boost of $2 per hour to many staff. Many CMSM/DSSABs would like to see a standardized salary scale (perhaps with regional variation), with provincial funding to support it. Municipalities had many suggestions to reduce the difficulties of recruitment.

- Across Ontario, home child care is 4%-6% of all licensed care. Municipalities are pleased with a recent supplement of $20 per day to home providers, however, there are still serious challenges in the recruitment of adequate numbers of home providers. New regulations under the Child Care and Early Years Act 2014 have increased costs of provision and paper work, affecting recruitment efforts. However, these regulatory changes are expected to be important for quality enhancement. CMSM/DSSABs are working hard with providers to overcome regulatory and financial barriers. Many municipalities believe that to succeed, they are going to have to offer more funding to attract providers. Base funding is one proposed solution. Incentive funding for taking infants, and for taking children evenings, overnights and on weekends will likely also be needed.

- Affordability is the main barrier to access. CMSM/DSSABs thought the Ministry's commitment to expansion of spaces was welcome and crucial, but expansion without addressing affordability is a problem.

- There are a number of accessibility issues identified by municipalities: rural access and transportation, part-time opportunities, care for children with special needs, and care during non-traditional hours such as evenings, weekends and overnight. A further issue of accessibility is lack of parental awareness of child care subsidy funding; public education about available funding is an important priority.

- Currently 57 First Nations administer and operate child care and early years programs on reserve. The Ministry provides funding to child care on reserve but, unlike off-reserve, there is no financial eligibility test and all children receive a full subsidy. The programs are, in effect, base-funded; individual First Nations may charge a nominal fee. First Nations are awaiting the announcement of the Indigenous Early Learning and Child Care Agreement for the allocation of funding dedicated to First Nations.

- Journey Together funding on First Nations reserves is mainly being used to establish new child and family centres. Accessibility of services that provide culturally-appropriate programming for the off-reserve Indigenous population has been extremely limited. The impetus for innovation and expansion of services off reserve has been developed under the auspices of the Journey Together program. Many CMSM/DSSABs with indigenous families both on and off reserve are working on expansion plans through their Journey Together submissions in collaboration with their indigenous partners in the community.

- CMSM/DSSABs have grown into the role as caretakers of quality. Most of them have hired quality assurance coordinators, are working in the community to improve quality in their programs, introducing significantly more professional development opportunities as well as mentoring programs. About half of all CMSM/DSSABs are using a quality measurement tool.

- Municipalities were almost unanimous in suggesting that the income test for child care subsidy be made more generous; Many CMSM/DSSABs believe that $40,000 would be a more realistic minimum as a turning point (i.e., income level below which the family pays nothing). Others mentioned the need to engage in outreach to middle-income families - to reduce the stigma associated with "subsidy" by changing the relationship between social assistance and child care subsidy. Some CMSMs said they would be interested in receiving technology funding to develop their centralized waiting lists and application processes.

- Most CMSM/DSSABs support the provincial thresholds for for-profit funding but there needs to be some recognition that this will be more difficult to implement in areas with very high numbers of for-profit operators. Setting rates and establishing systems of accountability are all important but are also areas where CMSM/DSSABs would appreciate provincial direction.

- The relationship between schools and municipalities in the child care sector has improved substantially in recent years. However, some school boards need more direction from Ministry on the importance of relationships with child care centres in schools. Specific directives to principals, teachers and janitors would help to improve the day-to-day experience for child care and EarlyON centres. School Board Early Years Leads are a critical link between municipalities and the school system; in some cases these Leads are not given sufficient time allocation to play this important role. The Ministry should consider giving child care the same status in schools as grade school education has so that child care programs would not have to pay rent or cost recovery.

- The most persistent irritant between schools and municipalities concerns the "rental" or "cost recovery" rate for space in schools. In too many cases, these charges are prohibitively high, which violates the spirit of the Schools First directives. A consistent policy that allows child care to flourish in schools should be adopted.

- CMSM/DSSABs have embraced the challenge posed by the Ministry to work on expansion and are putting considerable effort into achieving their targets, often with limited staff, short timelines and absence of planning resources. The priorities to increase accessibility, expand access to fee subsidy, and work on affordability are being achieved by reducing the subsidy lists, and through expanding capacity through capital expansion, Journey Together and collaboration with school boards. Other initiatives include attempts to expand Home Child Care, access to non-traditional hours, rural programs and infant programs. CMSM/DSSABs are assisting affordability by using general operating grants to prevent fee increases but initiatives such as those of Manitoulin-Sudbury DSSAB suggest possible future directions.

- The major barrier to expansion in centres is the shortage of RECEs occasioned by low wages and disinterest in the occupation by potential professionals because of those low wages. Other key issues are the lack of guaranteed funding, inadequate capital funding for expansion in the community by CMSM/DSSABs, the need for more realistic funding timelines (it takes 2-3 years to build a child care centre), management of the for-profit issue, more funding for administration, development and management of a new system including the need to examine new, more workable models. Other issues/barriers are the need to develop a strategy to overcome barriers to rural expansion, the reluctance of some operators to expand where need exists, and the overall need to make the goals and importance of early childhood education clearer to all through robust public education campaigns.

3.1 INTERVIEWS WITH MUNICIPALITIES

Municipalities are central to the administration of funding, planning and development of licensed child care services in Ontario. Historically and, to some extent, currently, municipalities have had an important role in funding child care services, as well. They are the Service System Managers for child care.

The previous chapter has described child care services, funding and governance in Ontario in an overall, aggregated, and frequently statistical way. That is only half the reality of child care in Ontario.

There are 47 Consolidated Municipal Service Managers/District Social Service Administration Boards (CMSM/DSSABs) in Ontario. These are the Service System Managers of the previous paragraph; we will refer to them here as the municipalities. The other half of the reality of child care in Ontario is what is happening at the municipal level – the variation in the challenges and solutions across these municipalities.

In order to convey this other half, interviews were conducted by the study team with 44 of the 47 CMSM/DSSABs, a critical exercise in understanding the realities faced by the service system managers on a day-to-day basis. Service system managers were universally enthusiastic about the recent developments in the Ministry's commitment to and funding of early childhood education and care but also wanted to make us aware of the challenges.

This chapter summarizes some of the unity and diversity of child care across the province. It will describe experiences, experiments, ideas and concerns reported to us by service system managers. We have organized this information under the following topics: Centre-Based Care; Home Child Care; Accessibility; Quality; Administration of the Subsidy System; Auspice of Operators; Relationships with school boards; Expansion Plans; Problems Associated with Expansion; and, Solutions to the Affordability Problem. Detailed background tables based on municipal responses are available from Cleveland Consulting Inc.

3.2 CENTRE-BASED CARE

The majority of child care is offered through centre-based care (94%-96%). 76% of licensed centre care is offered by non-profit organizations (this includes municipal directly-operated centres) and 24% for-profit companies (some of them being small owner-operated enterprises and some being corporate chains). More recently a few school boards are directly operating before-and-after school programs in the schools.

There are 15 CMSMs and DSSABs that have directly-operated (i.e., municipally-operated) programs - Durham, Toronto, Niagara, Hamilton, Stratford, Dufferin, Halton, Hastings, Peterborough, Cochrane, Kenora, Cornwall, Ottawa, Waterloo and Wellington. School boards directly operate before-and-after school programs in Waterloo, Ottawa and some Francophone Boards.

According to municipal representatives, viability, sustainability and stability are the three key issues defining the challenges facing child care centres today. The viability and stability of child care centres (and home child care providers) is a major concern for a majority of CMSM/DSSABs. The number one problem in child care centres is attracting and retaining staff in low-paying centres. The wages, for both qualified and unqualified staff, range from over $13 per hour to over $27, averaging about $17 per hour. Wages over $26 per hour are usually only paid in unionized settings. There are few employee benefits (i.e., fringe benefits) available to the majority of staff in child care centres that are not part of a larger agency or unionized or a directly-operated centre.

The child care sector has been substantially affected by the expansion of full day kindergarten (FDK) and the hiring by school boards of registered early childhood educators (RECEs) into those programs (estimated as at least 9,000 RECEs). Several children's services staff remarked that the job rate for school board RECEs is usually above $26.68 (the sector benchmark). In addition to having a well-paid job in the school system, RECEs who work there work shorter hours, receive good employee benefits, get holiday time at Christmas and March Break, have summers off (unpaid, but usually eligible for Employment Insurance), and they feel their teaching role is valued.

In contrast, we were told that RECEs and non-qualified staff in child care centres are expected to work in less desirable conditions. In some cases, they are asked to work long hours; in other cases, they are only working part-time, often irregular, hours because the operators can only afford to pay them for a few shifts in order to sustain the centre; or, they are being asked to work split shifts (early in the morning and late in the evening) to accommodate the hours of the before-and-after school programs. They do this job for relatively low wages and few (if any) benefits above the legislated minimums; they have a large administrative and reporting burden as well as additional responsibilities created with the new regulations. CMSM/DSSABs noted that they have observed a significant level of staff demoralization and turnover in centres. As a few CMSM/DSSABs reminded us, child care staff are nearly always eligible for fee assistance (i.e., child care subsidy) if they have children.

CMSM/DSSABs are acutely aware that there aren't enough qualified staff to go around and there is substantial turnover. Frequently, new graduates will move first into relatively low-paying jobs and quickly move on when they find a higher paying job. Or, they may leave the centre and/or the sector altogether because the level of stress is a burden. Many qualified and talented staff have moved to the school boards leaving existing centres with problems of leadership and capacity. Across the province, one third of all staff positions are not filled with the required qualified RECEs resulting in a "director's approval" at these centres, allowing centres to operate without the required number of qualified staff (October 2017). A further 20% of supervisors in centres across the Province do not have the required qualifications resulting in "director's approvals". The College of Early Childhood Educators of Ontario, along with other organizations, have expressed concern over this situation and suggest that the Ministry should exercise tighter controls over these director's approvals. They suggest that there should be a stronger requirement to demonstrate that qualified RECEs are not available and that there should be a limit on the length of time centres are permitted to operate under "director's approvals".

At a minimum, the College recommends that any individual working in the place of an RECE (e.g., individual working under Director Approval in a licensed child care setting or a Letter of Permission for RECE positions in school boards, etc.) be regulated by the College and subject to the same requirements and accountabilities to practice in accordance with the Code of Ethics and Standards of Practice as RECEs.[5]

Currently, unqualified staff are not subject to the Ethical Code and Standards of Practice of the College and therefore there is no complaints mechanism for families. In a significant number of cases, supervisors are working in the program to cover for the shortage of qualified staff, taking their administrative work home with them at night. The Community Colleges confirm the majority of the students enrolled in the two-year diploma programs are not electing to work in child care centres after graduation.

One community college professor estimated that only one-third to one-half of students will end up working in child care centres: one-third go on to take university courses and the other third seek jobs in school boards or other related children's service sectors.

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[5] College of Early Childhood Educators. Letter to Honourable Indira Naidoo-Harris, Minister Responsible for Early Years and Child Care, in January 2017.

All CMSM/DSSABs believe that dealing with the issue of the low-wage environment is crucial for stabilizing and growing the sector. CMCSM/DSSABs had no shortage of suggestions to resolve these critical problems – both in terms of the wages of the staff and with regard to recruitment.

The CMSM/DSSABs were very positive about the wage enhancement grant recognizing it as a major step forward. But all service system managers appealed for more funding for wages. Many reminded us that the sector had alerted them to the fact that the minimum wage increases will not be limited to staff earning minimum wage but will reverberate throughout the sector. Most believed that increased wages cannot be sustained by raising parent fees and it would not be possible for the centres to absorb the increases as they are generally operating on thin margins.

Some system service managers referred to the developments in other provinces such as Quebec, PEI, Manitoba and most recently Newfoundland and Labrador. In each of these provinces, fees are capped and the provincial governments provide grants to centres to cover the difference between the fee charged and the actual cost.

Many of them suggested that the province must introduce a standardized salary scale (perhaps weighted by region).

In terms of recruitment and retention, the following suggestions emerged:

- Expand Ministry's Upgrade Program to also be used for unqualified staff engaged in part-time, day release or apprenticeship programs as well as more on-line courses that would be accessible to staff in their non-working hours.

- Provide a staff replacement (substitute) grant so that operators may hire supply staff to cover for unqualified staff while attending a recognized college training program in early childhood education. The lack of supply staff everywhere was a common refrain. The school boards are paying $14 per hour for supply staff, in many cases more than staff in early learning and child care centres earn in their full-time jobs and consequently staff are opting to "supply" for school boards rather than work in or be a supply staff in community child care centres. Raising rates for supply staff, as well as overall wages, would seem to be a solution to this problem.

- Organize and fund extra professional development and training in this sector to encourage professionalism and encourage RECEs to feel valued. It was said that there can never be too much professional development and training in this sector.

- One CMSM/DSSAB suggested introducing an apprenticeship program so unqualified staff did not need to go off-site (and not get paid) to do placements. One municipality stressed the need to not forget about opportunities for the unqualified staff because without them, in many, many cases, the system could not survive.

- Permit payment for training of current staff out of General Operating Grant (GOG) dollars.

- Implement an incentive grant of up to $5,000 for ECEs with approved ECE diplomas or degrees who return to work in a non-profit centre after having been away from the sector for at least two consecutive years.

- Support and fund creative solutions by community colleges. For example, St. Clair College in Chatham is running a school age certificate program and operates classes from 9 to 3 so that students can go and work in the after-school programs after classes.

Some CMSM/DSSABs with managers who have knowledge of systems in other provinces, such as Manitoba, Quebec, PEI and Saskatchewan, pointed out that to attract staff it would be necessary to introduce a new job classification system from the unqualified to the supervisor/director in order that those considering careers can see that there is room for professional progress within the sector. Right now, there are really only three job classifications: unqualified, RECE, supervisor. This would effectively create a “career ladder”.

Colleges such as Conestoga and George Brown are offering an apprenticeship program for unqualified staff and Waterloo CMSM is paying for staff to go to college in the daytime.

The number one challenge to the viability and stability of centres are the issues of wages, staff recruitment and retention. Without solving these problems, it will be impossible to expand the system. CMSM/DSSABs would like to see a province-wide salary scale funded by the Ministry as well as new and bolder efforts to reduce the difficulties of recruitment.

3.3 HOME CHILD CARE

The CMSM/DSSABs (in addition to the Home Child Care Association) welcomed the Ministry’s initiative to increase the rates to providers by $20 per day and hoped that this would make a large difference. CMSM/DSSABs are still concerned that in many areas, however, providers are being charged high administration fees by the Home Child Care Agencies and that this is becoming a disincentive to participating in licensed Home Child Care programs.

In the majority of municipalities, Home Child Carre (HCC) constitutes between 4% and 6% of licensed child care. This conforms to the provincial Home Child Care average range. At the extremes, Kenora and Rainy River do not offer licensed Home Child Care at all and, at the other end of the spectrum, in Prescott-Russell, 60% of licensed child care is in Home Child Care – mostly in rural areas.

There are serious challenges in home care, however. Nineteen CMSM/DSSABs stated that they had experienced a distinct decline in the number of providers willing to offer care through agencies in recent years, especially since recent regulation changes. Niagara, for example, lost 25-30 providers; Lanark reported that they are licensed for 43 homes but only 15 are now operational; Cochrane is an example of a DSSAB where they have 50-60 children on the waiting list for Home Child Care but can't get the providers to deliver the service. Several CMSM/DSSABs (Bruce, Cochrane, Cornwall, Durham, Grey, Huron, Muskoka, Niagara, Parry Sound, Prescott-Russell, Renfrew, Thunder Bay, Waterloo and Wellington) directly-operate home agencies (sometimes the only agency in their region) and in some cases, they have taken on this role because existing home agencies have become less viable or even closed down.

Only three CMSM/DSSABs – Kawartha Lakes, Muskoka and Renfrew – reported a growth in the number of providers. Almost all of the remaining CMSM/DSSABs reported that the sector was struggling or standing still. Among many others, Bruce is trying to expand but reported that it had been a lot of work to retain their providers. Halton indicated that there had not been a decline but that parents preferred centre care.

While noting that the licensed home child care sector has not been growing in recent years, there was concern that their ability to retain and recruit providers had further declined since the introduction of the regulations under the new Child Care and Early Years Act 2014 (CCEYA). CMSM/DSSABs offered the following reasons (not all of them related to new regulations):

- Requirements for police checks for everyone in their household;
- Evaluation of premises and subsequent changes required
- Extra policies to follow and more paperwork to do.
- Extra administration: too many forms to complete
- Having to collect information about all children in their care as well as information about their families, not just the fee-assisted families.
- $100,000 liability insurance – a perceived increase
- Start-up costs, such as costs involved in meeting building, fire and public health standards, having sufficient toys to rotate, building cubbies, etc. – such costs have been estimated to cost between $2,000 and $4,000.
- Not wanting to pay income tax

In many cases, the extra $20 per day received through the Home Enhancement Grant apparently does not sufficiently compensate for these perceived negatives.

The Home Child Care Association is, however, extremely supportive of the regulatory changes and believes that this is the correct way to offer quality licensed home care. Their suggested solutions, supported by most service system managers, are to provide base funding to the agencies. This would cover all administrative costs so the providers did not have to pay admin fees to the agencies. Also, start-up costs and minor capital grants for providers are needed to assist them to meet the regulatory requirements.

CMSM/DSSABs are working hard with their providers to assist them to overcome any barriers they are experiencing. Examples include situations where CMSM/DSSABs have helped provide fencing around water; arranged for the building of cubbies, or brought fire doors up to code. Renfrew has a new agency just starting and they immediately realized that providers needed financial support in the form of start-up, ongoing equipment (cots, gates, open-ended toys) and supplies and ensuring that health and safety is maintained. Brantford has given money from the GOG to the agency - Wee Watch - to launch a publicity and recruitment campaign. Manitoulin-Sudbury is base-funding the service. Cochrane is providing a $1,500 start-up grant to cover business licenses, first aid training, fire extinguishers, equipment, supplies and toys. Despite these initiatives, however, recruitment is either going slowly or is in decline.

Durham CMSM is launching a strategy this Fall to promote licensed HCC to operators in schools with the idea that if the operators became home child care agencies they could utilize the staff currently working split shifts in before-and-after school (B/A) programs in the schools to take on the roles of home visitors; the staff would then have a full day's workload. Durham is optimistic and believes that more and more parents are looking for the "licensed sticker" which bodes well for the development of the licensed home child care sector. Durham will be offering information sessions to promote the service to providers.

One suggested provider-recruitment strategy is to get the parents using unlicensed providers to try to recruit their providers to the licensed system. Many CCSM/DSSABs are conducting extensive information and training campaigns in their regions.

Most CMSM/DSSABs are still anticipating growth in the HCC system despite resistance to the rules and regulations. Many of them believe that to succeed, they are going to have to offer more funding to attract providers. Base funding was a solution suggested by several CMSM/DSSABs in addition to start-up and minor capital grants. Incentive funding for taking infants, and for taking children evenings, overnights and on weekends will likely also be needed.

3.4 ACCESSIBILITY

3.4.1 Are there enough spaces?

Most CMSM/DSSABs believe that there are not enough child care spaces in their area and several of them used the ratio of child care spaces to child population to demonstrate this.

Even those who thought that there was sufficient supply now, thought that if it was affordable and if there was increased demand, supply would definitely be a problem. Examples included:

- Durham has a waiting list for subsidy and they only have enough spaces to serve 23% of the child population;
- Using all of its child care spaces, Kingston is only able to serve 32% of the child population 0-12;
- Wellington has enough spaces to cover 16% of 0-4 year olds and for infants that figure drops to 3%;
- Waterloo only has enough spaces for 22% of children of child care age;
- St. Thomas can provide licensed care for 19%-20%;

Nipissing has sufficient spaces for 26% of their child population 0-12. In contrast, Kenora has almost enough spaces to reach their definition of universal accessibility – 50% of the child population. It should be noted, however, that the municipalities comprising the Kenora DSSAB provide deficit funding to the child care centres so they can keep the fees low enough.

There are anomalies however. For example, vacancies exist in Thunder Bay mainly because the child population has moved to different locations and the centres have not adapted to these demographic shifts. In rural areas, there is generally a lack of child care but when it exists, the centres sometimes have vacancies because there is not a high enough concentration of children in the area to fill all the spaces; in some places, there are waiting lists because there are not enough children to enable an operator to hire additional staff to accommodate them and still keep the centre financially viable.

3.4.2 Access to rural, part-time, extended hours and care for children with special needs

CMSM/DSSABs identified other common types of shortages: rural access (and transportation for both families and staff), part-time opportunities, care for children with special needs and care during non-traditional hours such as evenings, overnights and weekends. Across the province, there are very few initiatives that address the issue of providing care during non-traditional hours. For example:

- St. Thomas has a child care centre that is open 23 hours out of 24.
- Cornwall, Simcoe and Prescott-Russell have one centre each that is open 24/7
- Chatham-Kent has a centre with extended hours till 10:00 p.m.
- Sudbury has a centre with extended hours till midnight

- Unevenly and rarely, some operators will keep their centres open for longer hours in the evening or early in the morning.
- In Brantford, WeeWatch, a Home Child Care Agency, offers 23-hour care;
- Some Home Child Care providers will provide service in these hours but this is not a major trend and CMSM/DSSABs are considering providing incentives to providers to offer extended-hours care.

Because of the lack of affordable child care, the use of unlicensed child care is still the most prevalent form of care in most communities. Again, affordability was cited as the major reason for this. A Director of Children's Services in the West Toronto Region indicated that even though the majority of families used unlicensed child care, they would prefer licensed.

Affordability is most acute at the level of infant care. Despite the fact that the vast majority of parents cannot afford infant care, there are still waiting lists and shortages almost everywhere in the province.

Awareness of child care availability and particularly awareness about eligibility for child care subsidies was cited as a problem for access also. Nearly all CMSM/DSSABs have conducted advertising and public awareness campaigns or, if not, are planning to in the future. Many of them hoped that the Ministry would pursue ongoing outreach and public education campaigns.

Also articulated was the concern that many children did not have access to any early learning and child care experiences. Many CMSM/DSSAB representatives believe that eventually the activity requirement to receive government assistance (i.e. working or studying) should be dispensed with so that all children would have these opportunities. In the meantime, they thought that the CMSM/DSSABs should have more discretion to offer subsidy spaces to children who did not qualify because their parents were not working or studying and did not have a referral from a social services or health agency but would, in their view, be of benefit to the child.

3.4.3 Free Programs

Experience in the area of operating free programs for all preschoolers is not new to Ontario. Lambton, Chatham-Kent and Timiskaming described the merits of their universal programs free of charge for children in the year before kindergarten. These programs are not identical but they each offer set hours for all children of that age to participate in an early learning program for 2.5 to 3 hours. All these programs originated as part of the demonstration sites when Best Start was introduced in 2005. These three programs are struggling to continue today. In Lambton, the funding hasn't been cut but it has been flat-lined so the program will inevitably have a limited life. Chatham-Kent and Timiskaming are making the best use they can using their own reserves together with the general operating grant to keep these programs alive.

They all believe that the programs are extremely successful and important as they permit all children access to some early child development opportunities before entering school – especially children in rural areas. "It's a huge return on investment" according to one CMSM/DSSAB manager. These claims are backed up by the analysis they do using EDI scores and administering the "Ages and Stages" questionnaire at entry and exit into the programs. The call for universal child care - if not now, then eventually - was a frequent refrain from many of the CMSM/DSSABs.

3.4.4 Accessibility of Child Care to Indigenous Population

Journey Together funding, as discussed in Chapter 2, is now a major vehicle for promoting Indigenous-led child care, culturally-appropriate child care and culture sensitivity generally to all child care programs in the Province.

On Reserve, the Journey Together funding is being used to establish and/or expand child and family centres. There is recognition, however, that more funding is urgently needed to address issues of crumbling infrastructure and staff shortages.

Accessibility of services that provide culturally-appropriate programming for off-reserve Indigenous child care has been extremely limited. In response to the the Ministry's Development of an Indigenous Early Learning and Child Care Framework, the Ontario Federation of Indigenous Friendship Centres (OFIFC) urged the Ministry to move towards Indigenous-led and culturally-appropriate child care centres across Ontario.

> *"Understanding the disruption and looking for paths to reconnect children to culture is critical as more is understood about the capacity for culture-based approaches to act as preventative/protective models for Indigenous early learning and child care."*

The OFIFC also stressed the need for more Friendship Centres to house and run child care in order to utilize their well-established culture-based approaches to programming, training, policy, research, and administration. The OFIFC provides the example of Timmins Native Friendship Centre (TNFC) as a model for future development. They say that it is:

> *"A very successful model of a Friendship Centre utilizing culture-based approaches to early learning and child care. The TNFC was recognized in 2016 under Ontario's Enabling & Celebrating Community Hubs: One Year Progress Update for its innovative use of a public property to enhance its capacity and to respond to unique community needs. The TNFC houses many child-centered programs including its Oppekehawaso Wekamik centre-based daycare program, which has offered a unique holistic child care environment that promotes Indigenous culture and language for over 10 years. Many Friendship*

Centres are now moving towards the provision of child care and child and family programming." (OFIFC, 2017)

The impetus for innovation and expansion of services off-reserve has been developed under the auspices of the Journey Together program. Many local Indigenous organizations are working on plans to extend and enhance child care services with the collaboration of the CMSM/DSSABs. Examples of these plans include:

- Creating new stand-alone base-funded child care centres oriented to local indigenous population including pilot projects in areas where programs can be available to all children (on and off reserve).
- Expanding spaces so that on-reserve children who come into the CMSMs and DSSABs to work or go to school can access services;
- Expanding provision of Home Child Care (if they can recruit enough providers)
- Directly operating new OEYCFCs by 2018;
- Working with Systems Integration Networks to do strategic planning;
- Lots of proposals for outreach, including culturally-led programming off reserve and funding for Friendship Centres to extend culturally-sensitive services to all residents off reserve, including funding cultural ambassadors to provide cultural sensitivity training programs across the entire sector. Hiring extra staff to do culturally-sensitive workshops in the region - always in demand.
- Proposal for new builds to include child care and early learning in community hubs including indigenous specialists to educate all child care centres and EarlyON Child and Family Centres;
- Hiring language teachers and organizing new programs for indigenous families at OEYCFCs.
- Creating a cultural immersion camp - recreational camp; as well as Homeward Bound projects.
- Partnerships between CMSMs and DSSABs and First Nations to do professional development for early learning and child care staff. Developing a plan for both on and off reserve;
- Hosting an indigenous position (with DSSAB directly) to transfer cultural knowledge throughout programs in DSSAB;

- There is also Journey Together funding available for on reserve projects. This is mainly being used to establish new EarlyON Centres. There is recognition, however, that more funding is urgently needed to address issues of crumbling infrastructure.

Affordability is the main barrier to access. CMSM/DSSABs thought the Ministry's commitment to expansion of spaces was welcome and crucial, but expansion without addressing affordability is a problem.

3.4.5 Maintaining Quality

All CMSM/DSSABs believe that high quality child care has to be the basis on which an early learning and child care system is built and expanded. Many CMSM/DSSABs are extremely proud of the work they have done and continue to do to improve quality. Sault Ste. Marie City Council, for example, voted to make the City's child care one of the best in Canada within five years and other municipalities are also striving to constantly improve the quality of the programs.

Most CMSM/DSSABs have a quality assurance program. Many municipalities have appointed a quality coordinator to visit centres regularly to help with capacity development, assessment and planning and suggesting how to fill the gaps in quality programming. Whether they do regular monitoring, administer a tool, or both, all CMSM/DSSABs encourage and support extensive professional development and capacity building for the centres. The allocation of funding for professional development and capacity development has been welcomed and well used by the system service managers.

Many of them also support supervisor and mentor networks to promote and improve quality. For example, Prince Edward-Lennox & Addington has a staff person supporting centres through communities of practice and professional learning. All centres in the county must participate in 4 of those professional sessions a year in order to get the general operating grant (GOG).

Some of the service system managers mentioned that they didn't have the resources to do the quality work themselves but relied on a community network or mentoring group that supported each other to improve quality. Most of the CMSM/DSSABs, including Brantford and Windsor, not currently engaged in quality assurance programs are in the course of developing them for 2018.

About half of centres administer a quality measure such as ITERS/ECERS, Raising the Bar, or an adapted version of Toronto's Assessment for Quality Improvement (AQI) tool (often renamed to fit their own circumstances). The following CMSM/DSSABs are involved in quality initiatives as well as administering a quality tool: Toronto, Halton, Wellington, Durham, Greater Sudbury, Nipissing, Sault Ste. Marie, Timiskaming, Thunder Bay, Kawartha Lakes, Peterborough, Hamilton, Lambton, Niagara, St. Thomas, Stratford, Cornwall, Lanark and Hastings.

Many mentioned that some of the current tools were no longer appropriate with the new program guidelines outlined in *How Does Learning Happen* – Ontario's pedagogical document for the early years. Most of the system service managers would welcome a provincially-designated measurement tool. Several suggested that the Assessment for Quality Improvement tool (Toronto) should be provincially adopted because it is the only tool that has been verified and works across all pedagogies and philosophies.

Several CMSM/DSSABs survey their community, their operators, or their fee-assisted parents annually to ask about the quality and the users' experiences. Some have found the results and feedback useful and are planning to administer a more comprehensive survey in the future.

The majority of CMSM/DSSABs believe that parents are satisfied with the quality even though many of them think that parents have a different perception of quality from the early childhood professionals. As an example, parents often do not understand the changes involved in the new curriculum, *How Does Learning Happen*. In the past, programs offered a theme-based approach and parents would expect children to bring home specific things on, for example, Mother's Day or St. Patrick's Day. Parents do not yet understand why this no longer happens and how this relates to the new curriculum. More education is required here.

CMSM/DSSABs have grown into the role as caretakers of quality. Most of them have hired quality assurance coordinators, are working in the community to improve quality in their programs, introducing significantly more professional development opportunities as well as mentoring programs. About half of all CMSM/DSSABs are using a quality measurement tool.

3.5 ADMINISTRATION OF THE SUBSIDY SYSTEM

CMSM/DSSABs appeared to be very pleased that the Ministry has expanded funding to enable them to eliminate or significantly reduce their waiting lists for child care subsidies.

They are concerned that the income test used as part of the subsidy system administration is out-of-date. The income test hasn't been updated since its inception in 2007. Some are concerned that the income eligibility rules for child care subsidy do not take into account the number of children in a family. Also discussed was the problem of the rapid jump in payback rates after $40,000, (i.e., parents must pay 30% of their additional income over $40,000, which is a big jump from the 10% of additional income they must pay between $20,000 and $40,000).

Many CMSM/DSSABs recognize that there are many middle-income families that may be eligible for subsidy but either don't know about the system or don't think they would be eligible. Even child care centre operators are often unaware that middle-income families may be eligible for subsidy. There was generalized concern that the stigma associated with child care subsidy could dissuade families from accessing it. There was discussion about the fact that parents have to go to the “Social Service” or the “Ontario Works” office for their interviews and how this is not conducive to making parents feel comfortable about applying for fee assistance.

Sometimes accessing subsidy approval can take a long time because families don’t have the required documentation available: birth certificate(s); social insurance numbers; letter from employer or educational institution; Notice of Assessment (NOA)(s); Canada Child Benefit (CCB) notice; and if applicable, receipts for disability-related expenses, not previously reimbursed. Having their NOAs or CCB notices readily available seems to be the main barrier for parents. Several CMSM/DSSABs indicated that they have asked the province to enter into a Memorandum of Understanding with Canada Revenue to allow them to download their client’s NOA. This has already been done for Ontario Works (OW) clients. So far, not much progress has been made on this issue through the Ministry of Finance and most CMSM/DSSABs find it frustrating that Ontario Works can have this facility but that it cannot be arranged for early learning and child care services.

There was mixed reaction to the idea of an automated and centralized application process for subsidy. Despite the recognition that stigma is attached to a visit to the welfare office, CMSM/DSSABs also think that the interview is an important way to explain the child care benefits to parents, to link them to other services and to provide them with a personal contact for any future difficulties. It was, however, recognized by some that an automated process might be preferable and that other ways could be found to link parents to services and provide them with information.

Some CMSM/DSSABs are beginning to move into a digital experience, corresponding with clients by email, accepting electronic copies of documents, etc. This appears to have speeded up the process considerably. Some CMSM/DSSABs currently take applications on line or by email but then create a service request and follow-up with a face-to-face interview e.g., Toronto, Wellington, Bruce, Simcoe, Windsor, Halton, Peel and Hamilton. In a few CMSM/DSSABs, staff meet subsidy clients in locations convenient to the client.

Only Waterloo, Ottawa, and Cochrane, from the municipalities we interviewed, do not require all parents to attend a face-to-face meeting. Cochrane conducts its intake process entirely by telephone with no face-to-face interview. Many CMSM/DSSABs would be interested in streamlining the process further, making it more simplified and systematic but indicate that so far there are no funds for the requisite technology. Several service system managers have dispensed with the interview for all families for the annual review process.

CMSM/DSSABs identified centralized waiting lists as a mechanism for improving both accessibility and fairness. The centralized waiting lists have enabled some municipalities to prioritize children approved for subsidy in centres with a purchase-of-service (POS) agreement or at least to have more control over the intake.

Most CMSM/DSSABs determine the allowable fee paid by the CMSM/DSSAB under a purchase-of-service agreement according to a market rate, but require services to submit a budget with full financial disclosure and then limit annual increases to 2%-3% or less, unless there's an exceptional reason for an increase.

The method for selecting this market rate varies. Some CMSM/DSSABs do market research and compare average rates within their area; some scout rates in neighbouring CMSM/DSSABs; Waterloo determines the high and low rates in the market and allows for rates within a range. Windsor requires centres to complete a Utilization Agreement report demonstrating how the funds were spent. Lanark sets a cap on the rates with annual increases; Prescott-Russell Council votes and adopts a specific rate; Niagara requires that centres demonstrate viability; Chatham pays the market rate with a limit; Greater Sudbury determines a baseline based on the rates of their 4-5 largest operators and then permits rates to be paid at the 80th percentile of that rate; Wellington pays within 20% of the average researched rate; Stratford is redoing its purchase-of-service agreements to ensure that staff wages rise to $26 and incorporate this into the rates. There is no systematic method of determining appropriate fees applied across the province.

Some service system managers, such as Toronto and Ottawa, have set up a tool (called a "benchmarking") tool. Based on individual costs, this tool estimates the exact amount that individual centres should be spending on every budget item (e.g., wages, benefits, occupancy costs, food and nutrition, supplies and administration, etc.) and calculates the cost of the service based on the numbers and ages of the children and the hours of operation. This is then used to help educate supervisors and boards of directors about effective financial management. But it is also used to determine the rate that will be paid to the child care operator. With this tool, CMSM/DSSABs are able to put more stringent requirements on operators. Wellington, for example, describes their process as a "budget for quality". It requires that all centres pay wages of $20/hour before they receive the general operating grant.

Most CMSM/DSSABs thought that this was a good example of an area where it would be appropriate to receive more provincial direction. Receiving provincial guidelines for setting rates, monitoring financial practices and ensuring accountability for government funds would be helpful and very important to ensure that new funding doesn't just result in a rise in prices without a matching rise in quality.

As one Chief Administrative Officer states:

> *When you're funding more than 80% of costs, you have a right to tell programs how they should spend the money - even for-profit centres. Therefore, we held them to it by addendum to contract; the Province should give a lot of policy direction in this area and make it easier for CMSMs.*

3.6 AUSPICE OF OPERATORS

The Ministry of Education has introduced a policy to prioritize funding to the non-profit and public sectors. To achieve this goal, the Ministry has introduced a "For Profit Maximum Percentage Threshold" for spending in the for-profit sector. Each CMSM/DSSAB has been given a threshold level to aim for. Most CMSM/DSSABs support the thresholds for for-profit spending. One Director of Children's Services let us know that their CMSM was thrilled with the threshold announcement. Previously, the Director said, they were always doing a balancing act between their knowledge about the problems with the for-profit child care sector for delivering quality child care on the one hand and the desire by local municipal councilors not to seem anti-business on the other hand. This kind of provincial direction is therefore seen as very useful.

But there is some concern that they will not be able to meet those thresholds where the commercial sector is more dominant, for example, in Durham, York, Peel, and Halton. One director also reported that the for-profit operators were willing to be more flexible in their hours of opening and pointed out that often a majority of infants were in centres operated by for-profit companies. However, across the province, there is considerable nervousness concerning the growth of for-profit chain child care. This phenomenon has grown rapidly since 2010. (e.g., Bunny Hoppers, Busy Bees, and Kids and Company). Kids and Company, for instance, now has 31 programs across the province.

To establish a clear direction in the area of auspice, sixteen service system managers now have a moratorium on future purchase-of-service agreements with new for-profit operators (i.e., Toronto, Durham, Norfolk, Peterborough, Simcoe, Hamilton, Niagara, Northumberland, Ottawa, Prescott-Russell, Greater Sudbury, Manitoulin-Sudbury, Nipissing, Kenora, Rainy River and Renfrew). In effect, the existing for-profit centres are grand-parented and continue to receive purchase-of-service agreements with CMSM/DSSABs (where they exist) but there are no contracts with new for-profits. All for-profit operators are permitted to receive the wage enhancement grants for their staff if they apply and meet the criteria. The administration of the general operating grant (GOG) to for-profit centres is inconsistent: some CMSM/DSSABs don't give for-profit operators any GOG; some give 50%; others give the full 100% - the same as non-profit centres. This is another area where provincial guidelines might be appropriate.

For example, Ottawa, Renfrew, Kenora and Sault Ste. Marie do not give general operating grants to for-profit operators; Toronto, Niagara and Durham give 50% of the general operating grant; the remainder provide 100% of the general operating grants to them. Peel pays the GOG to for-profit centres if they're paying average wages or raising the wages; Wellington requires that centres pay a minimum of $20 per hour before any grants are given; Lennox and Addington requires all centres to complete four professional development workshops per year in order to qualify to receive GOGs. One for-profit operator decided not to do the professional development so does not receive the grant money.

Municipalities were almost unanimous in suggesting that the income test for child care subsidy be made more generous; many CMSM/DSSABs believe that $40,000 would be a more realistic minimum as a turning point (i.e., income level below which the family pays nothing). Others mentioned the need to engage in outreach to middle-income families; to reduce the stigma associated with "subsidy" by changing the relationship between social assistance and child care subsidy. Some CMSMs said they would be interested in receiving technology funding to develop their centralized waiting lists and application processes, as well as making arrangements to access NOAs. Most CMSM/DSSABs support the provincial thresholds for for-profit funding but there needs to be some recognition that this will be more difficult to implement in areas with very high levels of for-profit operators. Setting rates and establishing systems of accountability are all important but are also areas where CMSM/DSSABs would appreciate provincial direction.

3.7 RELATIONSHIPS WITH SCHOOL BOARDS

CMSM/DSSABs were universally complimentary about the improvement in most relationships with school boards, while recognizing that there are definite outliers where relationships are not so healthy. School boards are usually working closely with CMSM/DSSABs to construct new child care centres in the schools, to retrofit existing schools to accommodate more programs and to construct new centres on school board land.

The Ministry of Education *Schools First* policy is unanimously supported by CMSM/DSAABs many of whom are hoping to move stand-alone operations into schools. Examples of excellent collaborative relationships flowed from many municipalities. Most CMSM/DSSABs deal with four school boards – a few only two, and one as many as eleven. This results in varying quality of relationships. For example, some service system managers identified school boards that came to them at the last minute to ask them to sign requests for capital consideration without any prior consultation and with very short notice. Subsequently, the CMSM/DSSABs find it difficult to find information on the status of these projects and this makes ongoing planning extremely difficult. In another instance, a DSSAB could not conclude negotiations with the school board and decided to use its own municipal money to build a new child care centre right beside the school. The CMSM/DSSABs identified the issue of communication as an area that continues to need a lot of work.

A more typical example, however, is that of Manitoulin-Sudbury which has an excellent relationship with one school board, works well with 2 others but has not communicated with the other eight. CMSM/DSSABs involved in the Best Start program in the 2000's talked about the fact that the collaboration had been an ongoing tradition since the inception of Best Start in 2005; consequently, these municipalities got off to a good start in the process several years ago.

A significant number of CMSM/DSSABs are concerned about the fact that space in schools is tapped out and that so far there is very little alternative capital funding for system service managers to access for community construction.

CMSMs and DSSABs indicate that the majority of schools in their regions have B/A programs – in many areas all the schools have B/A programs. Almost everywhere, the B/A programs are operated by third party operators. The exceptions are Ottawa, Waterloo and some of the Francophone boards in a number of different CMSM/DSSABs where programs are directly-operated by the school boards.

All CMSM/DSSABs mentioned the importance of the School Board Early Years Leads as a critical link between the CMSM/DSSABs and the school system. However, a few CMSM/DSSABs mentioned that their Early Years Leads no longer had a 100% allocation of their time to work on child care issues and as a result the effectiveness of their work has diminished. It was pointed out that the Ministry provides funding for this role for a full-time person and that it would be important to mandate this in the future. Some CMSM/DSSABs talked about the lack of authority of participants at the planning table resulting in a lot of frustration, lack of information and inability to ultimately plan and budget. It was suggested by many CMSM/DSSABs that the Ministry of Education should mandate Early Years Leads to attend monthly planning meetings with the community partners and dedicate their position exclusively to relations between child care and the schools.

CMSM/DSSABs still have concerns about the day-to-day attitudes towards child care centres in the schools. Successful integration of child care and EarlyON centres into the school environment depends upon the acceptance by the principal and individual teachers in individual schools. In some schools, there are no problems and the relationships are excellent. But, a lot of CMSM/DSSABs made the point that the messaging from the Ministry about *Schools First* and the importance of integrating child care hasn't made its way down to the classroom teacher and school staff and so a high percentage of CMSM/DSSABs talked about the reluctance of some principals, teachers and janitors to really embrace the *Schools First* objectives. There were numerous examples of these experiences:

- Teachers being reluctant to share their space, referring to "my children" in "my room".
- Janitor locked the washroom after he had cleaned it not permitting access for the children.
- One child care centre was told on the Thursday before March Break that they couldn't access the child care centre over March break because of planned renovations. This was a serious problem for the parents who were counting on the child care to enable them to work during March Break, for fee-assisted parents who had to pay the price of private

sitters, and for the actual child care centre that lost a significant amount of their anticipated operating revenue during the March Break period.

- Similarly, child care centres are frequently being told they have to close down for two weeks at Christmas because there is no way to keep the school open.

Most CMSM/DSSABs are also concerned about whether there would be support from the schools if they want to expand the hours of access to the child care centres. "We're still in silos", one person commented and a DSSAB Chief Administrative Officer said, *"We've worked on our relationships for years now, it's time that the Ministry provided clear directions to the school boards and schools."*

Perhaps the most persistent criticism raised in relation to school boards concerned the "rental" or "cost recovery" rate. Many CMSM/DSSABs thought that their centres were being charged exorbitant rates. The rates are prohibitive in many cases and many CMSM/DSSABs pointed out that this anomaly is undermining the provincial *Schools First* Policy that they all, in principle, agree with. But because of the high rates, many operators are finding that it just isn't viable to operate in school premises. In some cases, the rates are so high that operators are trying to relocate the space into the community. Many CMSM/DSSABs have ceased attempting to build Ontario Early Years Child and Family Centres (now re-branded as EarlyON centres) in school space because the rental cost is prohibitive. In other instances, CMSM/DSSABs are trying to negotiate with school boards to acquire land on school board property that can be operated entirely by the CMSM/DSSAB. The problem of "rent" is a critical problem to address. One general manager captured the opinions of most of his counterparts by suggesting that:

> *"The Ministry should fund the school as a whole and not see operators as a lessee in their building"*

Some CMSM/DSSABs did agree that "out-of-pocket" costs were a reasonable expectation but that child care centres should not become the source of revenue generation for the school boards. Other CMSM/DSSABs were adamant that the point of the *Schools First* policy was to integrate child care seamlessly into the fabric of learning from birth to school-leaving age.

Virtually all municipalities believe that the Ministry should establish a clear policy that permits child care centres and EarlyON Centres to flourish and that this be followed consistently across the province. One general manager interviewed coined the view of many other CMSM/DSSAB colleagues:

> *"We're all under the Ministry of Education and supposed to be partners and yet we're seen as tenants of the school. The accommodation rates should be part of the school funding formula and should be covered by the Ministry of Education rather than charging it back to the families through child care."*

Therefore, they suggested, the costs should be borne by the Ministry in just the same way they are for school age children, and not put back on the child care centres to pass along to the parents. Other CMSM/DSSABs could see the rationale for some modest amount of cost recovery.

The improvement in relationships between the schools and child care sector has made great strides in recent years. While celebrating these developments, there is still room for improvements: more direction from Ministry is needed on the importance of relationships in schools with child care; specific directives to principals, teachers and janitors would help; to improve the day-to-day experience for child care and EarlyON centres; there is definitely a need to strengthen the role of the Early Leads to improve communication and efficiency. The Ministry should consider giving child care the same status in schools as grade school education has so that child care programs would not have to pay rent or cost recovery.

3.8 EXPANSION PLANS

While recognizing that CMSM/DSSABs now had flexibility in the distribution of their allocations, the Ministry has asked them to prioritize accessibility and fee subsidy, followed by affordability. The Ministry staff and CMSMs and DSSABs have worked together to establish targets for the number of additional children to be supported through this expansion strategy and funding. CMSM/DSSABs will achieve these targets as follows:

- Everywhere, the service system managers' first priority is to eliminate subsidy waiting lists; some are also using their funds to eliminate the waiting list for children with special needs.

- Physical expansion is also occurring mainly through capital projects in school space but some CMSM/DSSABs have been able to organize the expansion or retrofitting of existing centres. Where possible, CMSM/DSSABs are encouraging centre operators to expand their enrolment capacity to match the licensed capacity. Many operators are too nervous to expand and many CMSM/DSSABs thought that incentives would be required.

- Almost all system service managers plan to expand Home Child Care if they can succeed in attracting providers. A few CMSM/DSSABs have started to provide start-up grants to family Home Child Care providers to encourage them to enroll or to remain as licensed providers. For example, one CMSM/DSSAB is offering $1,500; another is attempting to attract providers with iPads and other gadgets; others are helping them with necessary renovations required to meet the new CCEYA regulations; another is paying (through the agency) the additional $20 per day to all providers even though providers are normally expected to have completed a year's service prior to receiving it.

- The Journey Together funding is enabling CMSM/DSSABs to support their Indigenous partners in the community to create new child care centres and community hubs including EarlyON centres together with complementary programs for the Indigenous off-reserve population.

- Several CMSM/DSSABs have goals to expand access to hours (especially non-traditional hours), infants and Home Child Care. To achieve these goals, many of them are providing incentives to operators to provide these additional programs. Others are considering such initiatives.

Affordability initiatives have so far been limited. System service managers are attempting to prevent fee increases by supporting centres with the general operating grant. This is usually dedicated to increasing wages without increasing parent fees. There are a few CMSM/DSSABs who have taken bolder steps with regard to affordability. For example, Manitoulin-Sudbury has worked with their child care operators to agree on a fee to the parent and amount of the grant from Manitoulin-Sudbury that covers the difference between the fee to the parent and the actual cost to the operator. The table below shows the age category, the fees in October 2013, the fee in September 2017, the % decrease and the grant allocated to the centre, based on the age of the child.

Table 25
Change in Fee Structure in Manitoulin-Sudbury DSSAB -- 2016 to 2017

MANITOULIN-SUDBURY DSSAB				
Centre-based Child Care Rates				
	Oct. 2013 fee	Sep 2017 fee	% decrease	Grant to centre per child
Infant Full Day	$45.00	$35.00	22	$8,500
Toddler Full Day	$36.00	$30.00	17	$5,500
Preschool Full Day	$32.00	$25.00	22	$3,500
School Age Full Day	$30.00	$20.00	33	$1,750
Socialization all ages	$15.00	$15.00	0	not known
Before School	$10.50	$5.00	52	
After School	$10.50	$10.00	5	
Before and After	$15.00	$10.00	33	$1,750
With family groupings				$5,000
Family Home Child Care				
Overnight care 13 hrs+	$58.00	$45.00	21	
Extended Day 9-13 hrs	$46.00	$35.00	24	
Full Day 5-9 hrs	$36.00	$25.00	31	
Half Day - up to 5 hours	$28.00	$15.00	46	
Before School	$7.00	$5.00	29	
After School	$10.00	$10.00	0	
Before and After	$16.00	$10.00	38	

In order to offer Home Child Care at the price listed above and to pay providers, Home Child Care agencies also received base funding from the DSSAB. Two non-profit Home Child Care Agencies in the Manitoulin-Sudbury Region are eligible for the following grants:

1-3 homes	-	Up to $17,983/year/home
4-6 homes	-	Up to $13,487/year/home
7-10 homes	-	Up to $11,688/year/home
11-15 homes	-	Up to $9,890/year/home
16-25 homes	-	Up to $8,092/year/home

CMSM/DSSABs have embraced the challenge posed by the Ministry to work on expansion and are putting enormous effort into achieving their targets, often with limited staff, short timelines and absence of planning resources. The priorities to increase accessibility, expand access to fee subsidy, and work on affordability are being achieved by reducing the subsidy lists, expanding capacity through capital expansion, *Journey Together* and collaboration with school boards. Other initiatives include attempts to expand Home Child Care, access to non-traditional hours, rural programs and infant programs. Mainly CMSM/DSSABs are assisting affordability by using general operating grants to prevent fee increases but initiatives such as those of Manitoulin-Sudbury DSSAB suggest possible future directions.

3.9 CHALLENGES TO EXPANSION

The system service managers are acutely aware that making child care more affordable will undoubtedly increase demand. They do, however, have many concerns about the stability of the present system and about the lack of excess capacity to accommodate additional demand – especially for infants and toddlers.

As indicated in the section on Centre-based Care, leading the list of their concerns are the workforce issues – attracting and retaining RECEs. This, they believe, will be the number one barrier to expansion.

There was a general concern about the lack of guaranteed funding. This is causing reticence to move ahead aggressively on the part of the operators and is also a cause for some wariness on the part of some of the CMSM/DSSABs and, of course, their councils. They are all worried about expanding and then having funding cut. CMSM/DSSABs believe that the solution to this problem is multi-year funding allocations. The CMSM/DSSABs had many suggestions for 3- or 4-year funding guarantees including a suggestion that the Ministry could mirror the 4-year Housing funding guarantees.

Inadequate capital funding for expansion in the community by CMSM/DSSABs is another barrier. This is especially true in many areas where the school board space has tapped out. The CMSM/DSSABs recommended a new capital program providing funding directly to CMSM/DSSABs to undertake developments in their communities.

But with capital funding, CMSM/DSSABs stressed that the Ministry needs to understand timelines better: it takes 2-3 years for a child care centre to materialize from notice of funding, to planning, council approvals, design, construction and licensing. Some smaller communities are able to complete the process in 1-2 years but they still make the point about the constraints of the funding guidelines. In addition, many communities are concerned that they have committed to several capital projects without future guarantees of operating funding.

CMSMs with a high percentage of for-profit operators (York, Peel, and Halton) raised some concerns about their capacity to expand at the same time as limit the expenditures available to for-profit operators. They indicate that the only growth is in the for-profit sector and so they would like to see some “wiggle-room” regarding the thresholds in places where CMSM/DSSABs are very dependent on for-profit operators. Other CMSM/DSSABs are worried about the growing influence of chain child care and are supportive of the Ministry’s policy to prioritize funding to the non-profit and public sectors.

CMSM/DSSABs mentioned that they would need more money for administrative costs to deal with additional caseworker load and eligibility review. It was also recognized that more support will be needed for planning and research in an expanded system. Expedited expansion will also require funding for the development of projects from conception to turnkey.

Some of the CMSM/DSSABs are suggesting that to accommodate rapid expansion, it may be necessary to rationalize the sector’s development and management systems. This would involve establishing separate management companies that are able to undertake the development of new programs, and organize back-end functions such as financial management, payroll and purchasing.

Most CMSM/DSSABs envelop rural areas in their municipal region. It was stressed that there needs to be a strategy to deal with rural issues including the lack of transportation. Similarly, with Northern communities, it was stressed that there needs to be inherent flexibility in the north because of unique circumstances. For example, they would love to continue supporting programs in low-population communities where the numbers are uneconomic. They are now working to establish small centres (15 children) with family groupings to make these programs possible.

Many CMSM/DSSABs talked about the difficulties of existing operators only being willing to open the traditional hours (7 a.m. to 6 p.m.) – or less in many places. They also referred to many operators who will not accept part-time children unless they pay for a full-time space.

Several CMSM/DSSABs are therefore paying the full-time fee for children who are only using the space for part-time hours. Several CMSM/DSSABs have introduced incentives to operators to take infants, extend their hours beyond the traditional hours and to allow enrolment of part-time children.

Most CMSM/DSSABs identified Home Child Care as the best way to address the problems of evening, overnight and weekend hours as well as rural access but most of them noted that there were not a large number of providers willing to do this. In fact, most CMSM/DSSABs are finding great difficulty in recruiting new providers at all.

Most municipal representatives think that there is still not enough public knowledge about the benefits of quality early learning and child care as well as about the subsidy program. It was suggested by several CMSM/DSSABs that further provincial public education campaigns would help the system work better.

The major barrier to expansion in centres is the shortage of RECEs occasioned by low wages and disinterest in the occupation by potential professionals because of those low wages. Other key issues are the lack of guaranteed funding, inadequate capital funding for expansion in the community by CMSM/DSSABs, the need for more realistic funding timelines, management of the for-profit issue, more funding for administration, development and management of a new system including the need to examine new, more workable models; the need to develop a strategy to overcome barriers to rural expansion; the reluctance of some operators to expand where need exists and the overall need to make the goals and importance of early childhood education clearer to all through robust public education campaigns.

3.10 SUGGESTED SOLUTIONS TO THE AFFORDABILITY CRISIS

We asked municipal representatives about suggested policy responses to the crisis of affordability in child care. Here are some of those suggestions:

- Fix the child care subsidy system by making the sliding scale more generous and available. Revamp the income test so that payback thresholds are increased and payback rates reduced for middle-income families.

- Use the GOG to stabilize fees and prevent rate increases along the lines implemented in Manitoba, PEI and Quebec. This would involve setting fee caps, introducing a salary scale and providing negotiated grants to the operators to cover the difference between the fee charged to the parent and the actual cost. Some suggested that wages and fees should be weighted by region.

- Expand Home Child Care as a more affordable alternative;

- Make early education and child care universal like schools; As one CMSM interview participant commented:

    We have to make it cheaper for everybody; if there are no problems with universality for 4- and 5-year-old children, then it should be the same for 0-4's. It doesn't work if we value education but only starting at 3 years, 8 months.

- Fix wages and staff recruitment problems before anything;

- One CAO suggested evaluating the administration of funding through the tax system even though he wasn't personally in favour of it.

Despite the recognition of the problems of capacity, staffing, funding timelines and others, CMSM/DSSABs without exception believed that they were in the best position to advance the system because of their knowledge of local needs and resources. Most importantly, they are universally keen to undertake improvements and expansion.

CHAPTER 4: WHY PUBLIC FUNDING OF CHILD CARE MAKES SENSE

Chapter Summary

- Increased public funding for child care affordability has widespread support in Ontario.
- Impacts on Parents
    - Affordable child care will help parents balance the demands of work and family life.
    - Affordability of child care is particularly important to mothers; child care responsibilities are often a barrier to employment and equal treatment for women.
    - Quebec's child care reforms played a major role in helping mothers increase their access to employment.
    - The net cost of government child care assistance is substantially lower than its gross cost, because increases in parental employment cause increases in tax revenue and reductions in social assistance and other benefits. There may also be increased growth and productivity, multiplying the revenue effects.
- Impacts on Children
    - The years from birth to age five are crucial ones for children's development.
    - There is substantial and widespread evidence that early childhood education and care can be positive for children's cognitive and language development, completed education levels, and eventual employment and wages, as well as making them happy in the short run.
    - There is also substantial and widespread evidence that the effects of early childhood education and care are not uniform, but are heterogeneous. Policy needs to be directed towards making positive effects as strong as possible.
    - In particular, children from lower-income backgrounds are likely to have stronger positive effects, if they are not excluded from access and quality services.
    - Multiple dimensions of quality are key factors in child care's effects on children.

- Child care services need to promote and complement parental interactions with children rather than substitute for them.

4.1 WHY PUBLIC FUNDING OF CHILD CARE MAKES SENSE.

There is now widespread support for measures that make child care more affordable for families in Ontario. There are several reasons. Adema, Clarke and Thevenon from the Social Policy Division of the Organisation for Economic Co-operation and Development (OECD) put the case this way:

> *"Formal Early Childhood Education and Care (ECEC) services can help address a range of work, family and child issues. Affordable ECEC helps parents to participate in paid work, increasing family income and reducing the risk of family and child poverty. High-quality ECEC also has positive effects on child cognitive and social development, improving school-readiness (OECD, 2010) and, further down the line, social and labour market outcomes (Camilli et al., 2010; Havnes and Mogstad, 2011a; Ruhm and Waldfogel, 2012). These effects stretch across most children, but are strongest for those from lower socio-economic positions where high-quality ECEC can help mitigate many of the effects of a poor start (see e.g. OECD, 2006; Gormley et al., 2008; Dumas and Lefranc, 2012; Ruhm and Waldfogel, 2012; Van Huizen and Plantenga, 2015). Formal ECEC has the potential to play a central role in promoting social mobility and breaking the cycle of disadvantage." (OECD, 2016, p. 5)*

4.1.1 Impacts on Parents and Families

The money and time pressures on young families are quite acute. When children are young, parents are young. Young parents are involved in trying to establish employment experience, or get an education, and buy or rent to establish a home for their young children. It is a time of high expenditures and the high costs of child care can be very difficult to manage for families at any level of income. Increasing numbers of families are postponing childbirth or foregoing having children altogether. Making child care considerably more affordable can help young families balance the demands of family life and work in ways that are better for them and for society.

The burden of having children does not fall equally on both spouses in most families. Partly because women's wages are often lower than men's and partly because of patriarchal social norms and early experiences that are hard to overcome, mothers carry most of the burden of childrearing in many families. Thankfully, this is changing, but still the change is very slow. As a result, high child care fees are a major barrier to women's equal participation in the workforce. Often mothers are the ones who stay at home to care for children, or work part-time or in self-employment, when children are young. This puts them in a position of disadvantage in employment and the ability to earn income, often for the rest of their lives.

More than three decades ago, Supreme Court Justice Rosalie Abella (1984) wrote that "*child care is the ramp that provides equal access to the workforce for mothers.*" When child care is more affordable, women can earn income and care for children, reducing the exclusion of mothers from employment and reducing the gender gap in wages, occupational segregation, and the threat of poverty when marriages break up and when women are elderly and alone.

There are good reasons for believing that improving the affordability of regulated child care would encourage increased employment and labour market earnings for mothers, contributing to both gender equity and improving family incomes for both high- and low-income families with children.

The Quebec child care reforms beginning in the late 1990s provide evidence about the effects of a substantial decrease in the price of licensed child care and an increase in its supply. Lefebvre and Merrigan (2005, 2008) reported that, in 2002, the policy change increased the participation rate of mothers with at least one child aged 1 to 5 years of age by 8 percentage points (to a new level of 69% participation). Hours of work per year and weeks worked per year also increased. The authors' conclusion was that "the substantial decrease in the price of day care in the province of Québec caused by a policy of generous subsidization of day care providers had a substantial positive effect on labour supply and earnings." (Lefebvre & Merrigan, 2008, p.545). This was true for mothers with completed education at high school or less and for mothers with more than high school education

Lefebvre, Merrigan, and Verstraete (2009) looked at the longer-term effects of the Québec child care reforms. In other words, they examined the issue of whether mothers who were encouraged to join the labour force by the availability of subsidized child care when their children were young would stay in the labour force once their children reached school age. These results were surprisingly positive for mothers with high school education or less. Before the child care reforms, these mothers with lower levels of completed education and all children in school had employment rates of only about 50%. Their study found that as the reforms were phased in, the employment rates of these mothers kept increasing, reaching about 70% by 2002. This is a group for whom attachment to the labour force is traditionally weak. The implication would appear to be that the child care reforms have had an important effect on families most at risk of being in poverty by encouraging these mothers to join and stay in the labour force.

In corroboration of this, Pierre Fortin and his colleagues note that, in Quebec, the labour force participation rate of single mothers with children of preschool age rose by about 22 percentage points from 1996-2008 while the number of these families on social assistance was cut in half, poverty rates fell from 36% to 22%, and their median after-tax income rose by 81% (Fortin, Godbout and St-Cerny, 2013, p.6).

It is worth noting that the positive effects on mothers' employment are not just positive for families. As economists from Ontario, British Columbia, Quebec and the U.S. have shown, there are substantial fiscal benefits for governments as well (Baker, Gruber and Milligan [2008], Fortin, Godbout and St-Cerny [2013] and Laurin and Milligan [2017]). For instance, Baker, Gruber and Milligan estimated that close to 40% of the cost of child care provision in Quebec was covered by the extra revenues (and lower costs) generated by additional employment facilitated by the child care reforms.

Kevin Milligan from University of British Columbia and his colleague from the C.D. Howe Institute estimate the fiscal effects of a revised method of funding parental child care expenses in this way:

> *"In the short term, the net cost of the program could be reduced by about three-quarters after accounting for estimated new tax revenues (and lower income-tested government benefit payments) at the federal and provincial levels. In the long term, assuming that at least some of the program's beneficial impact on maternal employment persists as children enter their school-age years, the program might generate more revenue than it costs…." (Laurin and Milligan [2017], pp.2-3).*

Fortin, Godbout and St-Cerny (2013) calculate the revenue implications for governments of the Quebec child care program. These range from 31% of the total cost to 147% of total costs in 2008 depending on what is included. The low figure ignores the longer-run increases in labour force participation identified by Lefebvre, Merrigan and Verstraete (2009) and Laurin and Milligan (2017). It also ignores tax revenues from indirect and payroll taxes and corporate income taxes related to increased growth and productivity. The higher figure includes all of these.

Supporting this line of thinking, a recent paper from the International Monetary Fund (Petersson, Mariscal and Ishi, 2017) uses Canada as an example to show how increases in women's labour force participation has positive effects on the productivity of labour and the rate of growth of GDP.

Not all studies find that child care subsidization dramatically increases labour supply. Richardson (2012) provides a summary of some of the main issues (Box 3, page 19). Haeck, Lefebvre and Merrigan (2015) provide a thoughtful review of studies and conclude that child care reforms that are more comprehensive are likely to have larger impacts on labour supply. Cascio, Haider and Nielsen (2015) discuss a group of studies showing that the intensity of labour supply effects depend on a number of factors. In general, if there are shortages of child care spaces, subsidization cannot increase labour supply. And, if child care subsidies only encourage parents to substitute formal child care for some type of paid informal care, there will be not much effect on parents' labour supply (see also Havnes and Mogstad [2011b] and Andresen and Havnes [2014] for how there can be different magnitudes of labour supply effects brought about by subsidization of different age groups within the same country).

4.1.2 The Effects on Children

The years from birth to age five have been identified as the most important developmental period during childhood (Shonkoff and Phillips, 2000). Brain development in the first years of life lays the foundation for much that comes after – language development, literacy, cognitive and emotional development and self-regulation (McCain and Mustard, 1999; Shonkoff and Phillips, 2000).

There is lots of evidence that experiences in early childhood education and care services can have positive effects on children's cognitive and language development, and longer run positive effects on academic outcomes, completed education levels, employment and wages. These effects are both short run and long run, for full-day child care from early ages, for preschools and kindergartens. Ruhm and Waldfogel (2012) is perhaps the best recent summary of the considerable evidence on long-term effects[6].

There is also lots of evidence that the effects of child care on children are not uniform, but are heterogeneous (Havnes, 2012; Kottelenberg and Lehrer, 2014, 2017). For various reasons, the positive effects for low-income and immigrant children are likely to be larger, and there is some evidence that girls are more likely to thrive than boys. Further, these effects of child care are dependent on the quality of licensed child care – on factors such as staff-child ratios and the skills and capabilities of early childhood educators. The size of effects also depends on the type of care a child would otherwise have received, and on the quality of school experiences that follow on from child care.

Lower Incomes or Disadvantage

There have been several waves of research about the effects of child care on children. Many of the early studies were random assignment studies of children from lower income families to good quality child care centres. Overwhelmingly, these studies (e.g., the Perry Preschool Study, the Abecedarian Study, the Chicago Parent-Child Center Program) found that good child care

[6] It is difficult to study the effects of child care on children because (a) there are a very large number of factors that affect child development that need to be statistically controlled, and (b) the type and quality of child care that children receive is selected by parents so that factors affecting this selection process need to be statistically controlled. Ruhm and Waldfogel (2012) discuss these issues and how to recognize "good" studies. See also Duncan and Gibson-Davis (2006), Miller et al.(2016), and Cleveland (2016).

can have very positive effects on children and that these advantages can be long-lasting. In particular, good child care can compensate, at least partially, for a disadvantaged home life.

A benefit-cost analysis of the Abecedarian Early Childhood Intervention (Masse and Barnett, 2003) has revealed how broad and long-lasting the effects of a well-designed ECEC program can be on disadvantaged children. The benefits to participants (and the community) included:

- Improved measures of intelligence and achievement over the long term, leading to higher earnings and fringe benefits now and in the future
- Lower levels of grade retention and placement in special education classes, leading to cost savings in elementary and secondary education
- Improved employment and earnings of mothers of the children receiving early childhood education services
- Reduced probability of smoking and improved health
- Reduced use of social assistance.

Other studies of centre-based programs include various studies of Head Start in the U.S. Head Start children are a targeted low-income group with heterogeneous programs delivered to approximately one million children per year.

Currie and Thomas (1995) find long-term (i.e., into the early school years) positive effects on school achievement for white Head Start attendees, but not for African-American children, apparently because of the later negative effects of their schooling. In a second paper (1999) Currie and Thomas found long-term positive effects on school achievement for Hispanics.

Examining the long-term effects of Head Start programs when children were in their early twenties, Garces, Currie and Thomas (2002) found White children who attended Head Start were more likely to complete high school, to attend college, and to earn more than other White children who did not attend Head Start. African-American children were more likely to complete high school than similar children who did not attend Head Start. Deming (2009) finds strong positive effects of Head Start on a summary index of young adult outcomes using data from the National Longitudinal Survey of Youth.

Child Care for All Children

Other studies have looked at child care or preschool for much broader groups of children. For instance, a universal 4-year-old prekindergarten program in Tulsa Oklahoma has demonstrated the strong positive cognitive and language effects of a well-designed prekindergarten. Strong effects on measures of pre-reading, pre-math and language were found for both disadvantaged and middle-class children, and from different racial and ethnic groups (with, in general, somewhat larger effects for disadvantaged and both Black and Hispanic children, but substantial positive effects for all children).

The Oklahoma results were partly due to the very high quality of prekindergarten services provided. Prekindergarten services were provided in the schools by teachers who had both a teaching certificate and a certificate in early childhood education, and who were paid at public school rates. Classroom sizes were capped at 20 children, and, with one lesser-trained assistant, this meant that staff-child ratios were 1:10 (Gormley, Gayer, Phillips and Dawson, 2005).

Recently, Felfe, Nollenberger and Rodriguez-Planas (2015) have studied the introduction of universal child care for 3-year-olds in Spain and found sizeable improvements in children's reading skills at age 15 and evidence of a reduction in grade retention in earlier years.

Dumas and Lefranc (2012) study the effects of a major increase in preschool (i.e., écoles maternelles) in France in the 1960s and 1970s, assessing the long-run impact of preschool attendance on later schooling and employment outcomes. The effects were sizeable and long-lasting, with children who attended preschool having more success in school and obtaining higher wages once employed, in a study controlling well for selection bias (see Warren et al, 2016, for a summary). These effects are driven by what happens to lower- and middle-class children, so one effect of preschool is to narrow inequalities amongst children.

Warren and Haisken-DeNew (2014) study the effects of preschool programs in Australia in the year prior to formal schooling. They look at results for children in Year 3 of school on NAPLAN (the National Assessment Program – Literacy and Numeracy). They find that children attending preschool, particularly those with well-qualified teachers, did significantly better on all five NAPLAN domains. These results controlled statistically for the socioeconomic background of students, their prior cognitive abilities and the strength of the child's home learning environment.

Havnes and Mogstad (2011a) examine the long-term effects of the introduction of universal access to early childhood education and care for 3-6-year-olds in Norway in the 1970's. A difference-in-differences design, based on differential implementation of the program by municipalities, finds strong positive effects on long-term child outcomes. An increase of 17,500 child care spaces results in about 6,200 additional years of education measured thirty years later. There are also significant increases in labour market participation for these children when they grow up, and reduced welfare dependency.

Black, Devereux, Loken and Salvanes (2014) studied the long-term effects of attending nearly universal child care in Norway in a later period - the early 1990s. The authors use sharp discontinuities in the price of child care by income in Norway to statistically identify the role of child care attendance on the later academic achievement of children.

They find that 3-5-year-old children attending good quality Norwegian child care have better grades in junior high school. They suggest that a major mechanism is the increase in effective income in families when child care is made less expensive.

In summary, there are very good reasons to believe that some forms of centre-based child care/preschool/prekindergarten can have important positive effects on children, whether these children are disadvantaged and low-income and from lone-parent families or whether these children are from middle-income and two-parent families.

However, the evidence is complex. Not every experience will be positive; the magnitude of effects will differ, the level of quality will matter, what happens to parenting practices may matter, the size of the impact will depend on what type and quality of care the early childhood education and care services replace.

In considering the effects of early childhood education and care, it is important to recognize that nearly every study finds that the effects on “disadvantaged” children are more strongly positive than for children who are less disadvantaged. These services do not need to be targeted interventions; ordinary ECEC programs, and particularly higher quality ECEC programs, that are widely available to children, have also been found to narrow child outcome gaps (Cleveland, 2017; Duncan and Sojourner, 2013; Havnes and Mogstad, 2015). In a number of studies, strong positive effects for immigrant children are also found (Dhuey, 2011; Drange and Telle, 2010; Spiess et al., 2003)

Quality and type of care matters

There are a very large number of factors that can affect a child’s development and behaviour.

The effect sizes measured in research appear to be dependent on two main factors: the quality and type of child care/ early education they receive, and the quality (support and stimulation) of the care the children would have alternatively received (often related to the family situation of the child). The age of the child moderates both of these factors, and the persistence of improved child outcomes will depend on later classroom experiences (Magnuson, Ruhm, and Waldfogel, 2007a).

Generally speaking, the quality of early childhood education and care provided is key to the magnitude of its effects on children’s development. This conclusion comes from a multitude of studies (see Sylva et al, 2004; Taggart et al., 2015; NICHD-ECCRN and Duncan, 2003; Peisner-Feinberg et al, 2001; Van Huizen and Plantenga, 2015).

The big short-term effects of the Tulsa, Oklahoma prekindergarten programs (Gormley, Gayer, Phillips, and Dawson; 2005) appear to be strongly related to the high quality of the services provided in the schools by teachers who had both a teaching certificate and a certificate in early childhood education, and who were paid at public school rates. Classroom sizes were capped at 20 children, and, with one lesser-trained assistant, this meant that staff-child ratios were 1:10.

The long-lasting character of cognitive effects in Danish centre-based child care (Esping-Andersen et al., 2012) appears to be related to differences in the average quality of care relative to the U.S. The results are especially strong for disadvantaged children in Denmark, but fade out and are not maintained for disadvantaged children in the U.S.

Datta Gupta and Simonsen (2010) find that family day care in Denmark is of worse quality than centre care in that country. Looking at non-cognitive outcomes, they find that this difference in quality makes outcomes significantly worse for boys whose mothers have lower levels of education and who attend family day care.

Effects on parenting can matter a lot

When studies find negative effects of ECEC, these can sometimes be traced to the changed child-rearing behaviours of parents when child care arrangements change. For instance, Herbst and Tekin (2014) looking at the effects of child care subsidies available to low-income families in the U.S. find that in subsidized families there were poorer interactions between parents and their children when children were in care.

Kottelenberg and Lehrer (2014b) find that the rapid increase in the use of child care in Quebec had negative effects for some families and some children. In general, they find that boys are worse off in a variety of behavioral dimensions, ranging from anxiety to hyperactivity and inattention. The authors trace this back to changes in parental behaviours that were different for boys than girls

Elizabeth Cascio and Diane Schanzenbach (2013) studied public preschool programs for 4-year-olds in the U.S. For lower income children, there were positive effects on the amount of time that mothers spend reading with kids, on mothers' employment, and on test scores of children right through 8th grade.

Characteristics of later schooling/care matter

Currie and Thomas (2000) seek to explain why positive effects of Head Start programs on children's development appear to fade out more quickly for African-American children than for White children. After analyzing school quality attended by children after Head Start, they conclude that the reason is that African-American children typically attend poorer quality schools once compulsory schooling starts.

Magnuson, Ruhm, and Waldfogel (2007b) analyzed average-quality prekindergartens in the Early Childhood Longitudinal Study – Kindergarten Cohort (ECLS-K) and found improved reading and math skills for children attending prekindergarten. These preschool effects did not persist in small and high instruction classrooms because, in that environment, other children are able to catch up. However, in large and low instruction classrooms, the preschool advantage continued to exist, largely due to continuing low performance in that environment of children cared for exclusively by parents (Magnuson, Ruhm, & Waldfogel, 2007b). The longer-term effects of early childhood experience partly depend on classroom experiences during at least the first years of school.

Effects depend on the nature of the alternative care that is replaced

Cascio (2009) finds that the introduction of universal kindergartens into public schools had long-term positive effects (on high school dropout rates and institutionalization rates) for white children but not for black children. After investigating alternative possible explanations, she concludes that kindergarten funding crowded out attendance at Head Start and other early education programs that may have had similar or even more positive effects for many black children.

It has often been said that this is one main reason why developmental effects on low-income children are stronger than for higher-income children. For low-income children, access to centre-based ECEC of reasonable quality may be replacing care by a relative, neighbour or parent. These types of care can be positive of course, but in circumstances where licensed child care is unaffordable, this alternative care may not be done with motivation and enthusiasm, but because better alternatives are not available or affordable.

Socioemotional/behavioural effects

Intensive early intervention projects such as Perry Preschool, Chicago Child-Parent Centres, and Abecedarian have had both strongly positive cognitive and language effects on children, but have also had strongly positive socio-emotional or behavioural effects. In fact, James Heckman and his colleagues (Heckman, 2007; Heckman et al., 2006; Heckman and Mosso, 2014; Cunha and Heckman, 2009) have argued that these non-cognitive advances – the ability to concentrate, the emotional disposition to share and co-operate, reductions in aggressive behavioural tendencies, abilities to self-regulate – are of key importance to beginning a virtuous cycle of learning ability.

However, there have been frequent suggestions that child care, particularly when it is of less than adequate quality, can have negative effects on these non-cognitive traits. For instance, the NICHD-ECCRN (2006) said that, amongst children using ordinary child care of different kinds in the U.S., better quality of child care was related to better socioemotional and peer outcomes at some ages. However, more child care hours over the child's life predicted more behaviour problems and conflict, as reported by care providers. And although more time in centre-based care was related to higher cognitive and language scores, it was also related to more problem behaviours and fewer prosocial behaviours, as reported by care providers.

Magnuson, Ruhm and Waldfogel (2007a) found attendance at prekindergarten programs in the U.S. is associated with improved academic skills in kindergarten, but also with higher levels of behaviour problems. However, program quality moderates behaviour problems; prekindergartens located in public schools did not have adverse behavioural impacts.

Baker, Gruber and Milligan (2008) found a pattern of negative socio-emotional and behavioural effects of the Quebec child care reforms in the late 1990's. The universal child care initiative dramatically increased the use of regulated child care over time, and had strong positive effects on maternal labour supply. However, the authors find that on socio-emotional measures such as aggression and hyperactivitiy/inattention, children in Quebec did worse than similar children in the rest of Canada over the same period. It has been suggested (Ruhm and Waldfogel, 2012) that the large expansion of low-quality family day care was partially responsible for these negative effects.

Kottelenberg and Lehrer (2013a, 2013b, and 2014b) re-examine these results to determine the origins of negative effects. For instance, Kottelenberg and Lehrer find that negative effects are concentrated in children who begin the use of child care at young ages (2013b). There are positive developmental effects found for children above 3 years of age. Second, as described above, the authors find that negative socio-emotional and behavioural effects are found only for boys. These negative effects appear to have been fostered by changes in parenting practices and home environments of parents with boy children. The authors find positive effects on behaviours for children who are most disadvantaged.

In a companion analysis using different techniques (2013a), Kottelenberg and Lehrer find that the average effect of child care across Canada including Quebec is positive for motor and social development and is not significantly negative for any socio-emotional or behavioural indicator. Kottelenberg and Lehrer's results make it clear that when it comes to assessing the impacts of early childhood education and care services on children, the details matter enormously. Positive effects and negative effects are both possible, depending on quality and type of care, child and family background, gender, child age, and the impact of new programs on parenting behaviours.

Lebihan, Haeck and Merrigan (2015) provide a very useful follow-up study of the effects of Quebec's child care reforms. They find that negative effects on health, behaviour and motor and social development found by Baker et al. (2008) disappear over time in two ways. First, there are not long-lasting negative effects as children get older, into their school years. And second, negative non-cognitive effects of the child care system on Quebec children 0-4 years of age declined each year and disappeared by 2008-2009, the last year for which data are available. In other words, many problems were associated with problems of growth and transition.

Although governments worry about how much child care promotes cognitive and social development, parents are often especially concerned that their children are happy and that they build positive relationships with their peers and their educators. Although the literature does not concentrate on the happiness of children, it is clear that good child care focusing on play-based learning and promoting positive social attitudes and behaviours can make children and parents happier in their daily lives.

4.2 CONCLUSIONS

Improving the affordability of child care is likely to have positive effects on parental employment and incomes. It will make it easier for families to balance the demands of work and family life. It will open opportunities and improve conditions for women's participation in employment and study.

Increased parental employment will also reduce the net cost of funding new child care programs, because parental employment increases tax revenues, reduces social assistance and other benefits payable and may contribute positively to economic growth.

There is substantial and persuasive evidence that early childhood education and care can promote children's cognitive and language development, and social and emotional capacities and can provide them positive everyday experiences that contribute to their well-being. The effects of early childhood education and care are not homogeneous. Therefore, it is a continuing goal of policy to ensure that impacts are positive for all children. This has implications for the quality of care, for the complementarity of parental and non-parental care, for tailoring experiences to children's needs, and for the importance of later school experiences.

CHAPTER 5: THE AFFORDABILITY PROBLEM

Chapter Summary

- Child care fees in Ontario range from about $9,000 to over $20,000 per child per year for children 0-4 years.
- There is substantial regional and age variation in fees, but they are high everywhere relative to incomes, and have been rising faster than inflation.
- The Family Income Affordability Measure (FIAM) calculates the net fee parents have to pay to get licensed child care for their children 0-6 years as a percent of expected family income after taxes and benefits.
- The Caregiving Parent Affordability Measure (CPAM) calculates the average net fee parents have to pay as a percent of the after-tax income contribution that the main caregiving parent will make to family income if employed. The main caregiving parent is the one whose work or study activities are most closely linked to the decision to use child care.
- For families that have at least one child 0-6 years and want to access licensed child care, we find the average family in Ontario would have to spend 20.8% of after-tax family income on child care or nearly 60% of the net income contribution of the main caregiving parent when employed. For families with at least one child 0-4 years, the average family would have to spend nearly one-quarter (23.5%) of after-tax family income on child care or just over two-thirds (67%) of the net income contribution of the main caregiving parent.
- For the Family Income Affordability Measure, a net child care expenditure of less than 10% of family income is considered affordable, from 10% to less than 20% is unaffordable and 20% or more is completely unaffordable.
- For the Caregiving Parent Affordability Measure, net child care expenditure of less than 30% of that parent's income is considered affordable, from 30% to less than 60% is unaffordable and 60% and above is considered completely unaffordable.
- By either measure, fewer than 22% of families find licensed child care to be affordable.
- Use of licensed child care and employment of the main caregiving parent is closely

related to these measures of affordability. For families that find child care affordable by either measure, there is over 63% probability of using licensed child care and over 80% probability that the main caregiving parent is employed; for families that find child care unaffordable or completely unaffordable, the corresponding probabilities are much lower.

- With current policies and levels of affordability in Ontario, about 8% of infants use licensed child care services, about 30% of toddlers and about 37% of children of preschool age.
- Considering only families with employed mothers, over 12% of infants, over 42% of toddlers and 50% of preschool-aged children currently use licensed child care.
- Many families combine parental care of children with employment of all parents in the household. Parents may arrange their work shifts so that this is possible (off-shifting). In these cases, the main caregiving parent will often work part-time or be self-employed in the household. There is evidence that these care decisions are strongly affected by the unaffordability of paid child care.
- The unaffordability of child care affects many aspects of women's employment, hours, and pay.
- Across the system, parents pay between 50%-63% of the total cost of licensed child care services in Ontario. Governments pay the rest.

Licensed child care is difficult to afford for many families in Ontario. With one child, the typical price of child care ranges from about $9,000 per year to over $20,000 per year, depending upon the child's age and where you live in the province. At these fee levels, child care is considerably more expensive than most university programs. With two or more children, the cost of child care is prohibitive for all but the most affluent families, unless the family is eligible for, and able to access, child care subsidies directed at lower income families.

5.1 CHILD CARE FEES IN ONTARIO ARE HIGH AND RISING

There are two complementary sources of information about child care fees in Ontario, one from an annual study by the Canadian Centre for Policy Alternatives (CCPA), another from a survey – a census - conducted by the Ministry of Education in 2015 and 2017. The CCPA survey (Macdonald and Friendly, 2017) is conducted in cities (and selected rural areas) by telephone. It includes services provided by both centres and family homes. Our data from the Ministry of Education survey includes only centres, but includes centres whether in cities, small towns or rural areas.

Tables 26 and 27 below show median fee levels in cities and rural areas across Ontario, from Macdonald and Friendly (2017). Table 26 shows the median monthly fee and Table 27 provides the same information but on an annual basis; it makes the comparison to family incomes easier.

Table 26
Median *Monthly* Fee for Care in Child Care Centres and Homes, Selected Ontario Cities and Rural Areas, 2017

	Infants	Toddlers	Preschoolers
Windsor	$988	$879	$781
London	$1,217	$1,120	$1,010
Kitchener	$1,325	$1,085	$975
Hamilton	$1,062	$1,052	$931
Brampton	$955	$1,128	$1,050
Mississauga	$1,452	$1,200	$1,052
Vaughan	$1,415	$1,150	$1,031
Toronto	$1,758	$1,354	$1,212
Markham	$1,150	$1,120	$1,017
Ottawa	$988	$1,109	$1,009
Rural Eastern Ontario	$927	$868	$825
Rural Central Ontario	$1,085	$1,020	$911
Rural South-West Ontario	$939	$846	$781
Rural Northern Ontario	$868	$825	$825

Source: Macdonald and Friendly (2017)

Table 27
Median Annual Fee for Full-time Care in Child Care Centres and Homes, Selected Ontario Cities and Rural Areas, 2017

	Infants	Toddlers	Preschoolers
Windsor	$11,976	$10,548	$9,372
London	$14,604	$13,440	$12,120
Kitchener	$15,900	$13,020	$11,700
Hamilton	$12,744	$12,624	$11,172
Brampton	$11,460	$13,536	$12,600
Mississauga	$17,424	$14,400	$12,624
Vaughan	$16,980	$13,800	$12,372
Toronto	$21,096	$16,248	$14,544
Markham	$13,800	$13,440	$12,204
Ottawa	$11,976	$13,308	$12,108
Rural Eastern Ontario	$11,124	$10,416	$9,900
Rural Central Ontario	$13,020	$12,240	$10,932
Rural South-West Ontario	$11,268	$10,152	$9,372
Rural Northern Ontario	$10,416	$9,900	$9,900

Source: Macdonald and Friendly (2017)

These annual fees are high relative to typical family incomes, and especially in comparison to the income of the main caregiving parent who may have to sacrifice employment and pay if child care is unaffordable. Fees in Toronto are particularly high, but are noticeably high in other parts of the GTA. Even in rural areas of Ontario, where incomes are often lower, fees for licensed child care are between about $9,000 and $13,000, annually, varying by the child's age.

According to Macdonald and Friendly (2017), preschool fees have increased by less than the rate of inflation in only one of Ontario's surveyed cities – Kitchener. In all other Ontario cities, the rise in fees from 2014 to 2017 has been higher than inflation, often considerably higher.

Administrative data collected by the Ministry of Education confirm the picture sketched by Macdonald and Friendly. Table 28 shows median daily and annual child care centre fees for Infants, Toddlers and Preschoolers from the Child Care Operators' Survey of 2017. This is a survey with responses from over 5,300 licensed centres in Ontario. The centres are grouped into regions and the median full fee for each age category is tabulated across centres.

Table 28
Median Daily and Annual Fees for Full-time Care in a Child Care Centre, by Age Category and Region of Ontario, 2017

	Daily			Annual		
	Infant	**Toddler**	**Preschool**	**Infant**	**Toddler**	**Preschool**
Toronto	$85.00	$66.00	$52.00	$22,185	$17,226	$13,572
West Toronto	$66.95	$52.55	$46.25	$17,474	$13,716	$12,071
Central	$57.50	$48.86	$42.84	$15,008	$12,752	$11,181
Southwest	$55.45	$48.40	$42.00	$14,472	$12,632	$10,962
East	$61.00	$51.00	$43.34	$15,921	$13,311	$11,312
North	$51.00	$42.00	$38.00	$13,311	$10,962	$9,918

Source: Ministry of Education, 2017

Infant care is substantially more expensive than toddler care, which is substantially more expensive than preschool care. This is largely driven by differences in staffing ratios. Infants need to have three caregivers in the room for every ten infant children. Toddlers require a ratio of one caregiver to every five children. Preschool children have a required ratio of one to eight.

There is strong regional variation as well. Toronto fees are substantially higher than in other regions, partly, as we will see, because wages are higher in Toronto centres, but also because real estate charges (occupancy expenses) are typically higher in the Toronto region. Fees are lower in the Northern region, partly because municipalities in the North allocate a larger share of their funding to the General Operating Grant which tends to lower fees. Municipalities can also keep fees low with contributions from their own budgets.

Fee information has been gathered using the Child Care Operators' Survey in both 2015 and 2017 in Ontario. Table 29 below shows that there have been rises in the median fee level for each age category in each region over the 2015-2017 period, with the exception of infants in the North. Otherwise, the rate of rise has been between 2.0% and 10.6% in each fee category. Over the same period, from March 2015 to March 2017, the all-items Consumer Price Index for Ontario rose by 3.4%. The typical fee rise for child care is greater than inflation over the period.

Table 29
Percent Change in Median Full-Time Fee in a Child Care Centre, by Age Category and Region of Ontario, 2015-2017

	Infants	Toddlers	Preschool
Toronto	2.7%	3.2%	8.3%
West Toronto	5.1%	5.1%	2.8%
Central	10.6%	8.6%	7.1%
Southwest	9.8%	7.6%	5.0%
East	8.2%	2.0%	3.7%
North	0.0%	5.0%	2.7%

5.2 CHILD CARE IS UNAFFORDABLE FOR MOST FAMILIES

Child care fees are, of course, not a measure of affordability of child care. The fees need to be compared to the incomes that families have available.

We have developed two measures of the affordability of licensed child care: the Family Income Affordability Measure (FIAM) and the Caregiving Parent Affordability Measure (CPAM).

The Family Income Affordability Measure (FIAM) calculates, for each family, the ratio of the net price of licensed child care to the total expected income of the family after taxes and after any child and family benefits (such as the Canada Child Benefit). The FIAM is a measure of the inequality of burden that child care imposes on different families – it is a family-specific measure. It is measured as a percentage; a high number means that child care is unaffordable – it takes up a large proportion of the take-home income of the family.

A second measure of affordability is closely related to the decision of families to use licensed child care or not and of the main caregiving parent to be employed. The Caregiving Parent Affordability Measure (CPAM) is based on the income that the main caregiving parent[7] might be able to earn. It is her decision to be employed (particularly, full-time employed) that most often triggers the demand for a regular child care arrangement. The employment decision will probably involve weighing up the expected net income contribution that this parent makes to household income vis-a-vis the net cost of child care. The CPAM calculates this ratio - the net price of licensed care divided by the expected net income contribution if this parent is employed. When the fee for child care is a very substantial proportion of expected earnings, this parent is much more likely not to be employed, or to seek informal child care arrangements (often parent or relative care) that have a low dollar cost. The CPAM is an affordability measure that is particularly relevant when a policy maker is considering the possibility of how affordability relates to changes in employment and child care type used.

Both of these measures are based on the cost of care for children 0-6 years of age in a family (note: not just the children who are 0-4 years of age). In other words, affordability is measured on a family basis, aggregated over your children younger than compulsory school age. The details of these two measures are described in more depth in the Technical Report to the City of Toronto study on affordability of licensed child care (Cleveland, Krashinsky, Colley and Avery-Nunez, 2016b).

It is not clear where the dividing line between "affordability" and "unaffordability" should be drawn. Ultimately, that is a question for politicians, policy makers and advocates to answer. For the purposes of providing snapshots of affordability, we have adopted the following conventions for the Family Income Affordability Measure. We will consider licensed child care to be "affordable" if a family can access it for their 0-6-year-old children for less than 10% of after-tax, after-benefit family income (i.e., less than 10% of family disposable income), for any number of children. If licensed child care costs 10% to 19.99% of net family income, we will call it "unaffordable". If purchasing licensed child care costs 20% or more of total family income after taxes and benefits, we will say that licensed child care is "completely unaffordable" for that family. As you will see, employment and child care decisions are closely related to whether child care is affordable or not.

A different set of conventions applies to the Caregiving Parent Affordability Measure. We will consider licensed child care to be "affordable" if a family can access it for their 0-6-year-old

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[7] The main caregiving parent is not necessarily the mother. In the case of a single parent father, he is the main caregiving parent. In the case of two gay male parents, the one earning the lower income is considered the main caregiving parent. Because our data sets do not provide information on who the family considers to be the main caregiving parent, we assume the mother takes this role in heterosexual couples.

children for less than 30% of the after-tax, after-benefit earnings contribution that the "mother" would make to family income if employed (i.e., less than 30% of her net contribution). If licensed child care costs 30% to 59.99% of her net contribution, we will call it "unaffordable". If purchasing licensed child care costs 60% or more of her earnings contribution after taxes and benefits, we will say that licensed child care is "completely unaffordable" for that family. Again, we will see that this measure of the affordability of licensed child care is closely related to child care and employment behaviours.

Table 30 indicates that fewer than 20% of Ontario families with at least one infant, toddler or preschool aged child can be said to be able to afford licensed child care. For most families, using licensed child care would consume 10% or more of their disposable after-tax, after-benefit income. Another 35% of families would use up between 10% and 20% of their available household income if they were to purchase licensed child care. And nearly half of all Ontario families with children younger than kindergarten age (46%) find licensed child care to be completely unaffordable – using it would consume 20% or more of their total available household income.

Table 30
Affordability of Licensed Child Care in Ontario in 2017 for Families with at least One Child Younger than Kindergarten Age (i.e., 0-4 Years) based on the Family Income Affordability Measure (FIAM)

Degree of Affordability	Number of Families	Percent of Families
Affordable (< 10% of net family income)	85,495	19.0%
Unaffordable (10%-19.9% of net family income)	156,880	34.9%
Completely Unaffordable (20% or more of net family income)	207,580	46.1%
TOTAL	449,950	100.0%

Note: Does not include families with parents on maternity or parental leave. These calculations are based on family characteristics and spousal income data from the National Household Survey (NHS) of 2011, child care fee levels from the 2017 Child Care Operators' Survey and income of the main caregiving parent projected using the September 2016 Labour Force Survey. Income and payroll taxes and benefits for each family in the NHS are calculated using CTaCs (Canadian Tax and Credit Simulator; Milligan, 2016). Results are weighted to population totals, using Statistics Canada weights.

Across all Ontario families with children younger than compulsory school age, the average value of this Family Income Affordability Measure is 20.8%, meaning the average family would currently have to spend over 20% of their after-tax, after-benefit income to access licensed child care services, even after taking account of the improvements in affordability brought about by the child care subsidy system for a substantial number of families.

We find a quite similar pattern of unaffordability using the Caregiving Parent Affordability Measure. This measure compares the extra income that the main caregiving parent is projected to be capable of earning (if she is able to obtain child care and enter the workforce). The after-tax, after-benefit contribution that her employment would bring to the family is compared to the net price of child care (after benefits such as the Child Care Expense Deduction that reduce the net price of child care for families). For only about 22% of families is the cost of child care less than 30% of the contribution from her earnings. For another 33% of families, the net cost of licensed child care would be between 30% and 60% of the contribution from her

Table 31
Affordability of Licensed Child Care in Ontario in 2017 for Families with at least One Child Younger than Kindergarten Age (i.e., 0-4 Years) Based on the Caregiving Parent Affordability Measure (CPAM)

Degree of Affordability	Number of Families	Percent of Families
Affordable (< 30% of main caregiving parent's income contribution)	98,285	21.8%
Unaffordable (30%-59.9% of main caregiving parent's income contribution)	148,465	33.0%
Completely Unaffordable (60% or more of main caregiving parent's income contribution)	203,205	45.2%
TOTAL	**449,950**	**100%**

Note: Does not include families with parents on maternity or parental leave. These calculations are based on family characteristics and spousal income data from the National Household Survey (NHS) of 2011, child care fee levels from the 2017 Child Care Operators' Survey and income of the main caregiving parent projected using the September 2016 Labour Force Survey. Income and payroll taxes and benefits for each family in the NHS are calculated using CTaCs (Canadian Tax and Credit Simulator; Milligan, 2016). Results are weighted to population totals, using Statistics Canada weights.

earnings. And for fully 45% of families, the net cost of child care would eat up 60% or more of her net contribution to the family's well-being.

This second affordability measure is particularly important for looking at whether the price of licensed child care is a major barrier to having and maintaining employment for caregiving parents (most often the mother). As Table 31 shows, for many families, the fees they must pay to access licensed child care dramatically reduce the returns to the family from her employment, and discourage continued labour force participation.

Across all Ontario families with children younger than compulsory school age, the average value of this Caregiving Parent Affordability Measure is 58.1%, meaning that for the average family close to 60% of the net income contribution made by employment of the main caregiving parent would be eaten up by the net cost of licensed care for their children not yet in Grade 1.

These calculations already take into account the improvements in affordability brought about by the child care subsidy system for a substantial number of families.

5.3 AFFORDABILITY OF CHILD CARE AFFECTS PARENT DECISIONS

It is no surprise, then, that our affordability measures and the probability of being employed full-time are strongly related. Tables 32 and 33 provide projections from our statistical model about the ways in which affordability is likely to affect the decision to use licensed child care and full-time employment. The results confirm in most dramatic fashion that affordability matters.

The more affordable licensed child care is, the higher the probability of using licensed care and of being employed full-time. Over 60% of families for whom licensed care is affordable on the family income measure (FIAM) will demand licensed care, and over 80% will be employed full-time. When licensed child care is unaffordable, the probability of demanding licensed care is cut in half and the probability of being employed full-time drops below 60%. When licensed care is completely unaffordable, both the likelihood of using it and the probability of being employed full-time fall substantially, as shown in Table 32.

The same story emerges from our other affordability measure (CPAM) in Table 33. The more affordable licensed child care is, the more likely it will be used and the more likely the main caregiving parent will be employed full-time. In other words, the price of licensed child care is a major barrier to children gaining access to licensed care and to the full employment of parents.

Table 32
Probability of Using Licensed Child Care and Full-Time Employment by Affordability of Licensed Child Care (Measured By FIAM)

Degree of Affordability	Probability of using licensed care (% of families)	Probability of parent (MCP) being employed full-time (%)
Affordable (< 10% of net family income)	62.9%	80.9%
Unaffordable (10%-19.9% of net family income)	31.9%	59.7%
Completely Unaffordable 20% or more of net family income)	11.1%	32.2%
Average of all families	29.0%	54.6%

Source: Behavioural estimates of demand for licensed child care and employment supply are derived from a statistical model using the National Household Survey, resident in Statistics Canada's Research Data Centre at the University of Toronto.

Table 33
Probability of Using Licensed Child Care and Full-Time Employment by Affordability of Licensed Child Care (Measured By CPAM)

Degree of Affordability	Probability of using licensed care (% of families)	Probability of main caregiving parent being employed full-time (%)
Affordable (< 30% of main caregiving parent's income contribution)	65.0%	88.7%
Unaffordable (30%-59.9% of main caregiving parent's income contribution)	31.3%	60.3%
Completely Unaffordable (60% or more of main caregiving parent's income contribution)	7.7%	20.4%
Average across all families	29.0%	54.6%

Source: Behavioural estimates of demand for licensed child care and employment supply are derived from a statistical model using the National Household Survey, resident in Statistics Canada's Research Data Centre at the University of Toronto.

The problem of affordability does not emerge because all families with young children are poor, not employed, or only employed in temporary or insecure jobs. In many families with young children, parents are fully employed, sometimes in secure employment, earning reasonable incomes (for their occupation and job experience) and paying substantial taxes. However, the period when children are young is also the period of life when young families do not yet have much employment experience, are low down on the career ladder and are trying to move up. Frequently, parents are trying to buy a condo or house, renovate it to accommodate children, accumulate furnishings for the house, and spend a considerable amount on goods and services for young children. It is a difficult financial time for many families. Balancing the competing needs of work and family is frequently difficult.

Table 34 below depicts the distribution of family income (before tax) for Ontario families with children 0-5 years of age, inclusive. The data is recent – from the 2016 Census – and refers to earnings in the 2015 calendar year. As you can see, there are 513,110 couple families with children 0-5 and 109,560 lone parent families with children 0-5. The median income for these couple families is $94,349 annually. The median income for these lone parent families is $30,117.

Our particular interest is in families with children 0-4 years of age (inclusive), but publicly available data did not provide incomes broken down in this way. However, population figures are available from the 2016 Census for 0-4. The count of 0-4 children in Ontario from the Census is 695,875 children (or about 139,175 on average in every birth year cohort). 582,240 of these children are in two parent families and another 107,090 are in single parent families (there are a few in "other" families). So, about 15% of children 0-4 are from lone parent families.

Of course, affordability of licensed child care is strongly related to family income. Table 35 below estimates the average level of affordability by household income level. Child care is much less affordable for those with lower levels of expected income. And yet, it is also true that, on average, the cost of licensed child care will eat up more than 10% of disposable family income even in families earning $100,000 and more annually.

This latter point is even more true when we look at the average values of the Caregiving Parent Affordability Measure in Table 35. CPAM reflects the barriers to employment faced by many mothers. And, while these barriers are lower in more affluent families, the cost of child care eats up close to half of a mother's expected net income from employment even in more affluent households. The issue of child care affordability is not restricted to low-income families and the solutions to the problems posed by child care (un)affordability need to help families well beyond this group.

Table 34
Number of Families, by Family Income in Ontario with Children 0-5 Years of Age, 2015

	Lone Parent Families	Couple Families	Total Families
$0 - $9,999	10,395	8,340	18,735
$10,000 - $19,999	19,350	7,605	26,955
$20,000 - $29,999	24,775	16,745	41,520
$30,000 - $39,999	19,025	28,250	47,275
$40,000 - $49,999	12,545	34,105	46,650
$50,000 - $59,999	7,880	36,405	44,285
$60,000 - $69,999	4,910	36,770	41,680
$70,000 - $79,999	3,060	36,720	39,780
$80,000 - $89,999	2,240	36,325	38,565
$90,000 - $99,999	1,715	34,720	36,435
$100,000 - $124,999	2,145	74,495	76,640
$125,000 - $149,999	710	55,000	55,710
$150,000 - $199,999	470	62,500	62,970
$200,000 and more	335	45,125	45,460
TOTALS	**109,555**	**513,105**	**622,660**

Source: 2016 Census, Statistics Canada

Table 35
Affordability by Expected Family Income Level in Ontario Families with Children Younger than

Expected Annual Income of the Household	Average of Family Income Affordability Measure	Average Level of Caregiving Parent Affordability Measure
Less than $50,000	30.8%	61.7%
$50,000 - $99,999	21.2%	69.5%
$100,000 and more	12.7%	44.2%
Total	20.8%	58.1%

Compulsory School Age

5.4 THE CURRENT LEVEL OF THE DEMAND FOR CHILD CARE

Affordability and other factors combine to produce current patterns of parental employment, demand for paid child care and decisions to have children cared for entirely within the family. We would like to have a clear picture of the child care decisions that families currently make, but that requires current data. The Ministry of Education collects information from providers about the total supply of licensed child care of different types. However, surprisingly, there has been no province-wide data collection about the factors affecting the demand for licensed child care since 2010-2011.

Although child care services are primarily a provincial responsibility under the Canadian constitution, the collection of data by Statistics Canada is entirely a federal responsibility. It is unclear why the federal government no longer considers it a priority to collect information about children's development and child care. This was a priority in the 1990s and 2000s and the data collected then has helped to produce many important studies and to facilitate governmental decisions about children. It would make sense for municipal and provincial governments and children's advocates to pressure the federal government to find a replacement now for the National Longitudinal Survey of Children and Youth (NLSCY) and associated studies. Alternatively, as in Quebec, the Ontario government will have to collect its own survey data on child care demand and children's development.

In the absence of current data, we have analyzed patterns of child care demand in 2010-2011 using the Survey of Young Canadians (a one-time cross-sectional survey based on the NLSCY questionnaire), applied these results to Ontario data from the National Household Survey of 2011, and then updated these results using Ministry of Education supply data from 2017.

This gives us the patterns of demand for different types of child care and employment arrangements shown in the table below.

Table 36
Projected Demand for Child Care Arrangements by Age Category, 2017

	Percent of All Children			Percent of All Children of Employed Mothers		
Type of Care Arrangement	Infants (0-17 months)	Toddlers (18-29 months)	Preschool (30 months – kindergarten)	Infants (0-17 months)	Toddlers (18-29 months)	Preschool (30 months – kindergarten)
Licensed Child Care	7.8%	30.0%	37.0%	12.4%	42.6%	50.0%
Unlicensed Paid Child Care	19.0%	16.1%	15.2%	31.3%	22.9%	20.4%
Parent or Relative Care While Parents Employed	34.0%	24.3%	21.9%	55.8%	34.6%	29.6%
Parent at Home, not Employed	39.1%	29.5%	25.9%	n.a.	n.a.	n.a.
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Statistical model resident in the Research Data Centre, University of Toronto.
Note: Infants being cared for by parents while on maternity/parental leave are not included in the table (this is really a separate category of care). The percentage of infants in parent or relative care while parents are employed in this table is slightly overstated because we are not able to account for the increased use of maternity/parental leave between 2011 and 2017.

Considering these four distinct types of care, licensed child care is used for a minority of infants, but for more toddlers or preschool-aged children than other arrangements. In fact, when we consider children having employed mothers, fully 50% of preschool-aged children use licensed child care, and nearly 43% of toddlers use licensed child care in Ontario. Despite affordability problems, there is considerable evidence of parental desire to give their children a licensed group experience when they are young.

Informal paid care (unlicensed paid care provided either in the caregiver's home or the child's home) is widely used for infants, but less so for toddlers or preschoolers.

It is a surprise to many that so many children with employed mothers are cared for entirely within the family, sometimes by relatives, but most frequently by the parents themselves. Some of these families are "off-shifting" – shifts are arranged so that one parent is always available to provide care. Frequently, instead, one parent (more frequently the mother) will work out of the home and provide care for the child at the same time as she works. In both the case of off-shifting or work at home, it is generally the case that the employed mother will be working part-time. Cleveland, Krashinsky and Forer (2015) show that care provided by parents while they are employed is strongly related to lower incomes and lower levels of completed education. In other words, the prevalence of parental care while parents are employed can be viewed as a symptom of the affordability problem.

5.5 WHY AFFORDABILITY OF CHILD CARE IS ALSO A WOMEN'S ISSUE

More affordable regulated child care may be positive for children's development, and it may increase GDP through its short and long-term effects on employment. But these "productivity effects" are not the only reasons why governments care about child care affordability. Governments also care about the effects on economic inequality among families. If access to child care narrows developmental disparities between children from different backgrounds and increases earnings and employment opportunities for parents who are economically disadvantaged, governments may consider child care spending to be a good investment.

Intertwined with these rationales for government spending on child care, governments are likely to want to spend money on child care in order to reduce the economic burden of child rearing for mothers of young children. They might describe this as advancing policies that contribute to work-family balance. In other words, child care is important because it can change the economic opportunities available for women (Cleveland, 2017).

Women now far outnumber men among recent college graduates in most industrialized countries (OECD, 2008). Girls do better in school, both cognitively and behaviourally. Logically, women should now be earning more than men and taking the preponderance of leadership roles in the economy. But, women are not. A central reason seems to be that women are primarily responsible for child rearing.

The motherhood pay gap measures the hourly pay gap between mothers with dependent children and all other women. Victor Fuchs (1988) was the first to identify a motherhood gap in wages – a gap of 7%-9% in wages between the earnings of women without children and those with children, after holding constant observable differences between these two groups of women. Waldfogel and Pal (2014) have found that, in the U.S., there has been no change in the overall size of this motherhood gap in pay over the period 1977-2007. Drolet (2002) finds that women who delay having children earn 6% more than workers who have children early, with all other factors held constant. Caranci and Gauthier (2010) find that career interruptions play a big role.

Carole Vincent (2013) summarizes a wide range of evidence helping to explain why women earn less than men. The gap in average hourly wages between women who are working full-time and men who are working full-time in Canada in 2011 is 13% - women's wages are 87% of men's wages. The hourly full-time wage gap is much smaller than before (24% in 1988), but it persists despite enormous changes in women's employment and education. Vincent identifies four main hypotheses, not mutually exclusive, to explain this continuing wage gap:

- women's choice of low-paid occupations,
- choice of lower paid jobs because of their non-pecuniary characteristics,
- women's choice of jobs with greater work-life balance because of their role as main caregivers for children and family members, and
- gender stereotypes in workplace organizational practices that value men's employment patterns.

Every one of these explanations is closely related to women's caregiving roles and the way that caregiving responsibilities shape the educational and occupational choices that girls make, the decisions to work part-time, to take time off for parental leave, to take time off to care for sick children, to refuse jobs that are time inflexible and the types of average workforce behaviours that are punished by gender stereotypes (Kleven, Landais and Sogaard, 2018).

Perhaps it is no surprise that the OECD (2012) finds that across the OECD the gender wage gap for workers without children is relatively small (6.6%), but that the gender wage gap for workers with children is several times as large. And, despite the enormous changes in mothers' workforce roles, women still spend more than twice as much time each week as men do providing primary child care for children (Statistics Canada, 2011)

5.6 THE SIZE OF PARENTS' SHARE

Another perspective on the child care affordability problem is gained by looking at the share of child care costs borne by families, in comparison to the share borne by government. This calculation can only be approximate and indicative, but it is useful nonetheless.

Governments spend substantial amounts on child care – in 2017, the combination of provincial and municipal expenditures in Ontario amounts to $1.44 billion. Much of this is spent on child care subsidies directed at low- and middle-income families – close to $800 million under different spending envelopes. Approximately, another $450 million is spent either through the General Operating Grant, or to support the very low wages of child care workers in different ways. This latter $450 million can be viewed as keeping the fees charged to parents lower than they would otherwise have been (either directly, or indirectly through the support of wages).

We know the median fee levels for child care in different age categories and in different regions across the province. And we know the number of children in different age categories that are currently using licensed child care. Most of this child care is full-time for children below kindergarten age. We can use the full-time fee levels for infants, toddlers and preschoolers, and the before-and-after school fee levels for children of kindergarten age to make an approximate calculation of the total expenditure and the parental share for families with children 0-6 years.

The total amount of child care expenditure at full-fee levels across the province would be just slightly more than $2.9 billion ($2.917 billion). In fact, since about $450 million has been spent lowering the average level of fees and supporting wages, we can conclude that the bulked-up full level of expenditure would be about $3.367 billion. Of course, not all families are paying full fees. As mentioned above, about $800 million is spent on child care subsidies annually.

Table 37 lays out the main numbers.

Table 37
Calculation of Parental Share of Total Cost of Child Care amongst Current Users of Licensed Child Care

Costs/expenditures	Amount in millions of dollars	Percent of total
Full Cost of Child Care Services at Current Use Levels	$3,367	100.0%
Government Expenditure on Lowering Fees/Supporting Wages	$450	13.4%
Government Expenditure on Child Care Subsidies	$800	23.8%
Expenditure by Parents	$2,117	62.9%

In other words, despite substantial spending by governments, parents still pay the bulk of the costs of child care. Since only about 30% of children who currently use licensed child care have their fees reduced by the child care subsidy system, the majority of parents (the remaining

70%) are paying an amount which is close to the full cost of providing child care services. Hence, the province and most of its families have a substantial child care affordability problem. Of course, this is only a calculation about current users of licensed child care. Families who do not currently use licensed child care are, we presume, those with the largest affordability problem.

There are, in addition, funds related to the cost of child care that are paid through the Child Care Expense Deduction (CCED). The CCED is claimable, typically by the parent with the lower level of earnings, as a deduction from income before taxes are levied on this parent. In general, the parent can only get a deduction if there have been legitimate child care expenditures during the previous year that have assisted that parent in earning income/being employed. The limit of expenditures that can be claimed is either the total amount of child care costs actually incurred or $8,000 per child younger than seven years of age, or $5,000 per older child, or 2/3rds of the lower earner's annual income, whichever of these is less.

Because this deduction is only available if there are child care expenditures, the Child Care Expense Deduction helps reduce the fee the family would otherwise have to pay for child care. We calculate that the total amount of the Child Care Expense Deduction (federal and provincial combined) for children younger than compulsory school age using licensed child care in Ontario is $412 million annually.

There are two possible interpretations of the role of the Child Care Expense Deduction. One, which we favour (Cleveland and Krashinsky, 1999), is that the Child Care Expense Deduction reflects a legitimate and necessary expense of employment for the second earner in a household (or the primary earner if a lone parent family). This earner should not be taxed on income that is not really income, but is income that pays for this necessary cost of being employed.

According to this interpretation, the Child Care Expense Deduction is not a gift to the parent, but is merely a by-product of taxing her fairly – only on income that is really income. It should not, therefore, feature in the calculation of the government's vs. the parents' share of total costs.

The second interpretation of the Child Care Expense Deduction is that this is a special benefit for families with child care costs, and so should be counted as part of the government's contribution. According to this interpretation, the value of tax relief due to the Child Care Expense Deduction should be included in the calculation above. If we did this, the value of the parents' contribution would fall to 50.6%.

CHAPTER 6: DIFFERENT CHILD CARE FUNDING APPROACHES – THE THEORY

Chapter Summary

- ❖ We seek a funding approach that improves affordability of 0-4-year-old child care for families, while giving special assistance to lower-income families and maintaining or improving quality and accessibility.
- ❖ The market for child care is a mix of public and private, but there is a growing public interest in keeping fees low and quality high in order to remove barriers to parental employment and increase children's access to good services.
- ❖ Governments who fund child care on the demand side seek to use market mechanisms to stimulate supply and enhance quality of services.
- ❖ Supply-side funding recognizes child care as a substantially regulated market, with private (largely not-for-profit) service providers, but regulated supply, quality, staff compensation and fees.
- ❖ There are two major types of sliding scale to subsidize child care. One uses family income to determine the percent of family income that a family should pay. The second type of sliding scale uses family income to determine the percent of the full fee that a particular family has to pay.
- ❖ Quebec created a network of high-quality not-for-profit services called CPEs (Centres de la Petite Enfance, or Early Childhood Centres). These have had important positive effects on children's development.
- ❖ However, because of very substantial supply shortages in the early days of Quebec's child care reforms, Quebec's system has developed in negative ways; this provides a crucial reminder that problems of phase-in and transition are at least as important as initial funding policy plans.
- ❖ The Child Care Expense Deduction is a measure originally designed to provide fairer taxation of employed mothers; it shelters from taxation the part of income that pays for a legitimate work expense. Taxation of mothers would be unfair without it.

6.1 WHAT ARE THE GOALS OF CHILD CARE FUNDING?

"You've got to be very careful if you don't know where you are going, because you might not get there." Quote from Yogi Berra, baseball philosopher.

The best child care funding approach depends on what our objectives are. Affordability of child care is a very important objective, but it is not the only objective. Accessibility (which includes the actual availability of needed services, together with flexible hours and service characteristics that meet the diverse needs of different families), and high quality are very important as well. Another way of putting this same point: affordability is not so much a goal, as it is a means to reaching a set of goals related to children's development and happiness, and to parental employment and other activities. Affordability, accessibility and quality of services are needed to reach these goals.

If employment of parents were the only goal, then any way of making child care more affordable might be acceptable. Even then, finding the right hours of service in the right location for the appropriate age of child would be important to parents, and that would mean that accessibility matters too.

Parental employment is not the only, nor even the most important, goal of child care policy. The effects of early childhood education on children, on children's happiness, on children's emotional, social and language development matter as well. In fact, without child care services that are positive for children, the affordability of child care is not worth achieving. The quality of ECEC provided to children is always a central issue, because we believe that the quality of care is directly and substantially related to the effects on children's multi-faceted development in the early years (Lamb, 1998; Shonkoff and Phillips, 2000; Sylva et al., 2011).

Quality is not easy to describe or measure, but it can be seen in staff-child ratios, in curriculum frameworks to support early childhood education and care, in group sizes, training levels of early childhood educators, in the quality of the leadership and mentorship provided by senior staff and in the interactions between parents and educators. Quality is reflected in the resources available to educators, in the way that children from different backgrounds and with different abilities are integrated into the group, in the low rate of turnover of qualified staff.

The other key dimension of government's funding objectives is to make sure that lower-income families are particularly enabled to access quality child care services. This is important to mention for two reasons. One is that the benefits to both children and parents in lower-income families can be especially large; this is found in the majority of studies (Burger, 2010; Duncan and Sojourner, 2013; Elango et al., 2015). The second reason is that lower-income families are sometimes less likely than other families to be first in line when enhanced child care funding arrangements become available. Often accessing licensed child care is part of a set of life changes in low-income families; these changes may take time. As a result, when there is not enough child care capacity for all families or when there are variations in child care quality, these families can end up with poorer quality services or on a waiting list. This can be true of children in indigenous or immigrant families as well.

This is not to say that children from higher-income families should not receive their fair share of financial assistance to access good quality child care. Families at all income levels have difficulty affording child care. Pierre Fortin (2017b) makes a persuasive case, discussing criticisms of child care funding in Quebec:

> *It is good practice to ensure that middle- to high-income households sometimes receive government services at low cost in exchange for the mountains of taxes they will pay throughout their adult lives. Low-fee universal childcare is one of the very few public services that college- and university-educated middle- and high-income families can hope to get in the first 15 years of their adult lives in return for the taxes they pay. They do not get healthcare because they are young and healthy. They do not get employment insurance or social assistance because they hold college and university degrees. They do not use free public schools yet because their first child is not going to reach school age before they are 33. Viewed in this light, the access of richer young households to low-fee childcare is not a "boon" to them, but a well-earned return for their contribution to maintaining and developing good public services…. Furthermore, the presence of middle- and high-income parents in a low-fee childcare system helps establish and maintain good-quality childcare and prevents the stigma that is too often associated with "programs for the poor". (pp. 18-19)*

So, our objective is to find a funding approach that can dramatically improve the affordability of 0-4-year-old child care for families, while giving special assistance to lower-income, indigenous and immigrant families and maintaining or improving quality and accessibility. The multiplicity of objectives is what makes child care policy complex.

6.2 HOW DOES THE CHILD CARE MARKET WORK?

How does the market for child care work? Is the market for child care services like the market for cabbages, or is it more like the market for health care, or the market for education?

If it is like the market for cabbages, then we will be very happy as a society to let this market run itself, without government interference. In the market for cabbages, consumers earn incomes and decide how much to allocate towards the purchase of cabbage, what type of cabbage, and whether to buy cabbages in a deep-discount supermarket or in a high-end purveyor of expensive but very fresh vegetables. Or, consumers will decide to grow the cabbages themselves, allocating time to cabbage-growing that might otherwise have been allocated to employment, training, or leisure.

Government policy in relation to the cabbage market can mostly be summarized as “hands-off”. In other words, we as a society (reflected in the attitude of our governments) believe that demanders of cabbages will behave in ways that ensure that the suppliers of cabbage try hard to meet their demands and also that the competition from a large number of potential suppliers of cabbages will ensure that cabbage producers will have constant pressure on them to charge reasonable prices in relation to their costs, but also to ensure quality. This only works well if consumers can easily acquire information about the quality of cabbages they might purchase. And even with cabbages, there may be some role for government to ensure food safety if some growers cut too many corners on costs. And, there may be other “public interest” issues in relation to climate change and land use that compel governments to intervene in this market. But, for the most part, we agree that minimizing government’s role will allow consumers to benefit the most from the cabbage market.

However, the health and education markets are different. A very substantial proportion of health services are provided free-of-charge to Canadians. Doctors are paid by governments for services delivered, according to a negotiated fee schedule. In most cases, doctors are not free to sell their services privately if someone is willing to pay more than the government will. Suppliers to this market are not free to enter at their will and their behaviour and rules of payment are determined by government regulations.

Primary and secondary education are also provided free-of-charge. Suppliers of free education are not private enterprises but are schools established and regulated by government at different levels. There are multiple arguments for the highly regulated nature of these markets, but much of the argument focuses on promoting and preserving the quality of services. It is believed that consumer sovereignty, expressed with consumer buying power, would not ensure that health care and education would be high quality services.

University education is not free in Canada, but it is heavily subsidized, so that fees to students are well below total per-unit costs. The provision of university education is restricted to certain not-for-profit enterprises that are believed to share the social mission of government in providing the best possible quality of education to students, within the limits of resources available. For-profit universities have not generally been allowed or wanted in Canada. Partly this is an issue of trust and quality – does the need to make a profit divert for-profit enterprises from the social mission we want educational institutions to have? And partly this is an issue of ethics – since government is providing the majority of the funding of post-secondary education, is it ethically appropriate to enrich individuals who own enterprises that provide this service?

So, I return to my original question: "Is the market for child care services like the market for cabbages, or is it more like the market for health care, or the market for education?"

Right now, the child care market is mixed. In Ontario, at least 75% of services are provided by not-for-profit enterprises and there is a government preference for future development to occur in the not-for-profit sector. But, child care is a purchased service, purchased by parents in markets from producers competing with each other. As discussed in the chapter on affordability, there is a large amount of parental expenditure on child care. In licensed child care, perhaps about 40%-50% of the total cost is paid by governments, so 50%-60% or more is paid by parents. There is additional parent expenditure on informal paid child care.

However, there is a substantial public interest in the results produced by the child care market. Unlike with cabbages, it is not only the direct consumers and producers that benefit (Cleveland and Krashinsky, 1998, 2003, 2004a; Cleveland, 2012). Further, there is a substantial public interest in simultaneously keeping child care fees low and child care quality high. This will increase women's access to the labour market and increase children's access to good quality services.

Historically, there are two main forms that government intervention in the child care market has taken. First, is the subsidization of fees for low-income families accessing the labour market or training for future employment. Second, is the regulation of supply characteristics believed to promote child care quality (e.g., staff-child ratios, group sizes, education/skills of educators and other staff, restriction of the provision of services by for-profit operators)?

In the last 30 years, governments have also taken on a funding role designed to promote the quality of services through providing supplementary funding for child care sector wages. This wage funding has had the intent of creating pay equity for child care staff who are overwhelmingly female, and allowing licensed child care facilities to attract better qualified staff without raising parent fees too much.

As governments in Canada come to recognize the public interest in improving child care affordability, accessibility and quality, this mixed market is becoming, and should become, more like education and health care, and less like cabbages. This is the background to this chapter's discussion of preferred funding mechanisms.

6.3 FUNDING TOOLS

There are a number of funding/policy tools that can be used to help parents access care for their children when they are young (Cleveland and Krashinsky, 2004a):

- Child-related leaves and associated benefits – including maternity, parental, paternity and child-rearing leaves, with or without paid benefits, with or without full job protection;

- Publicly-provided ECEC services – including pre-primary education and ECEC services provided by public sector bodies or non-profit agencies (even with user fees so long as these fees are small for all users);

- Supply subsidies to ECEC services – operating grants, quality-enhancement grants, wage-enhancement grants, capital equipment grants, tax benefits and tax reductions given to ECEC services otherwise normally subject to taxation;

- Demand-side subsidies for the use of ECEC – subsidies to low-income families for the use of ECEC services, tax deductions of ECEC expenses or tax credits based on ECEC expenditure, vouchers for the purchase of approved types of ECEC services.

We will not consider child-related leaves and benefits here. There are important discussions to be had about future changes to parental leave that will affect parental decisions about infant care, but it is not part of our mandate to engage in this discussion now.

6.4 SUPPLY-SIDE VS. DEMAND-SIDE FUNDING

The most important discussion is whether funding should occur on the supply-side or on the demand-side. Should assistance go directly to parents (demand-side), or should governments finance services, reducing the cost to parents (supply-side)? Should governments play an important role in enhancing the quality of services, or should governments rely on consumer choice to deal with issues of service quality?

Some observers believe it is important to direct funding through families; these will allow parents to make decisions on what kinds of licensed or unlicensed child care are best suited to their children. These demand-side subsidies can flow through the tax system as tax credits. Alternatively, they can be provided directly through vouchers, redeemable for any type of paid child care. Because parents know their own children best, it is argued that consumer choice in the marketplace is the ideal mechanism to use to ensure that parents and children get good quality, accessible and affordable child care. It is argued that, because producers will be competing for the consumer dollar (enhanced by vouchers), fees will be kept as low as possible. These observers do not deny that there is a public interest in promoting child care, but they argue that this public interest can be fully implemented by improving affordability with a voucher. After that, parents as consumers take over to ensure their children get what they need.

Of course, with supply-side subsidization, there is also considerable scope for parental choice about types of care, hours of care and individual providers. However, supply and quality decisions are substantially monitored and regulated by governments, unlike in a pure demand-side approach. Fee caps are also a typical feature of supply-side funding.

The biggest problem with demand-side subsidies is that they provide inadequate mechanisms to ensure that parents purchase high quality care that will support children's optimal development (Cleveland & Krashinsky, 2004a). Since quality is, perhaps, the key determinant of child care's effects on children, this is a central problem.

Markets only work well if purchasers can effectively monitor the output they are purchasing, and reward firms that produce the highest quality for the lowest price, and if firms will respond to those market signals. But the market for child care is decentralised and somewhat chaotic. Further, each parent chooses from only a small number of providers that are geographically convenient, so each producer only competes effectively with a few other providers. Many parents have never purchased child care before, and by the time they learn what they need to know, their children are old enough so that the parents may never purchase child care again. Working parents have little time to seek out and evaluate child care, even if they knew entirely what they were looking for. Furthermore, the direct consumer of the care - the child him or herself - cannot easily communicate with the parent about what kind of care is being delivered. And the effect of good or bad child care is seldom immediately apparent. For these reasons, studies have found that parents often over-estimate the quality of the care that they purchase relative to the assessments of objective measures of quality (Helburn, 1995; Mocan, 2007; Walker, 1991).

If it is difficult for parents to determine quality accurately, then the presumed advantages of the marketplace disappear. Informal and unregulated child care may appear to be as good for their children as licensed care. For-profit firms may have an incentive to provide child care that seems of high quality but is not. Because parents can be fooled into buying low quality care, low-quality providers will be able to underprice higher-quality producers and drive them out of business. For example, suppose that a high-quality producer sells child care services for $14,000 per year. If a low-quality producer can produce child care services for $10,000, but can dress that care up in a way that makes it seem to be of equal quality as the higher cost care, then the low-quality producer could sell the care for $12,000 and make a profit while simultaneously winning over the customers of the higher-quality producer. As a result, the market will fail, and the higher-quality producer will be driven out of business even though the public might prefer that kind of care if they had full information about it (Walker, 1991).

Further, vouchers can lead to segregated forms of education (Krashinsky, 1986; MacLeod and Urquiola, 2009), and to limits on the ECEC choices of children perceived to have "problems". If subsidies to all children are the same, profit-oriented ECEC centres will not seek to serve the more problematic children, since they may consume resources that might otherwise go to the entrepreneurs running the centres. This leads to a problem familiar in the education field and known as “cream-skimming”. The costs of administering a market-based child care system to avoid this form of segregation can be considerable.

Supply-side subsidies can be provided in a variety of ways. ECEC services can be provided directly through the public sector by various levels of government (e.g., directly-operated municipal centres) or child care services can be provided by not-for-profit or for-profit providers who are rigorously monitored to encourage the maintenance of quality standards and financial reporting standards. With supply-side funding, governments regulate the supply and location of services, rather than letting independent operators make unfettered supply decisions. With demand-side subsidization, frequently there will be too much supply in some places (densely populated urban areas) and too little supply in others (rural areas and small towns). This can lead to high per-child costs in over-supplied areas and inadequate services elsewhere.

When services are provided by not-for-profit operators, the provision of supply-side funding for services acts to stabilize the financial position of the small organizations that are frequently the typical providers. In some jurisdictions, for-profit operators are allowed to join not-for-profit providers in the delivery of low-cost services (and the corresponding receipt of supply-side subsidies)[8].

There is a further philosophical issue about supply-side vs. demand-side funding. In 1987, the Peterson government in Ontario published a major policy document about the reform of child care funding, called New Directions for Child Care. The document promised “a comprehensive policy that recognizes child care as a basic public service, not a welfare service.” When child care funding becomes large – when governments are providing more than half of the total cost of child care services[9] – one could argue that child care has become a public service. The government has the right and the obligation to ensure that child care services are positive for children and parents. The argument that market forces will compel good behaviour by suppliers is much less powerful when governments are the dominant funder. In this circumstance, simply providing funding to parents (demand-side funding) without ensuring the quality and characteristics of services provided would be unacceptable to many.

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[8] See Cleveland and Krashinsky (2009) for a discussion of why not-for-profit child care is likely to provide systematically better child care quality especially in larger urban areas.

[9] In the chapter analyzing child care affordability in Ontario, we concluded that government subsidizes about 40%-50% of the full costs of child care services already. All political parties appear to agree there will be substantial additional investments in child care in the near future. It appears to be reasonable to conclude that, soon, child care in Ontario will be predominantly government funded.

The evidence on the benefits and costs of early childhood education and care does not suggest that all and any expenditure of public money on ECEC, even if provided on the supply-side, will generate benefits greater than costs. The precise design of ECEC financing programs matters. In particular, the ratio of benefits to costs is clearly affected by the quality of ECEC services available; benefits to children rise with quality level, not just up to some point, but apparently without obvious limit (Lamb, 1998). However, costs also rise, in general, as the quality level of ECEC services rises.

The ratio of benefits to costs can also be affected by the degree of employment support for parents that child care programs provide. Programs that provide appropriate hours of support to make parental employment more convenient are more beneficial to parents and therefore increase governmental tax revenues which offset operating costs (Peterssen, Mariscal and Ishi, 2017).

6.5 TYPES OF SLIDING SCALE

Supply-side funding always provides a considerable amount of base funding to child care suppliers. However, parental contribution schemes can vary. At one end of the continuum, services can be free to parents. So, for instance, in France, the Écoles Maternelles are free for children from 3 years of age and up (and, if space is available, from 2 years). In New Zealand, children at 3 and 4 years of age are eligible to have 20 hours of free child care in a child care centre or other service. Above 20 hours, parents pay for care at a flat hourly rate, unless they have low income. In England, 30 hours of free child care is available for employed parents of children 3 or 4 years of age.

Many jurisdictions have some sort of sliding scale for parents and base funding for suppliers. For instance, in Sweden, parents pay 3% of family income for the first child in child care (up to a maximum), so the amount of payment varies as income varies. A second child costs another 2% of family income, and so on.

There are two major types of sliding scale.

1. One uses family income to determine the percent of family income that a family should pay. The Swedish funding scheme is this kind of sliding scale. So is our current subsidy system in Ontario. The amount of family income determines how much a subsidized family has to contribute; the amount of contribution by parents is not affected by the amount of the full-fee for that type of care. Of course, our current subsidy system is not available as a right, which makes it different from most sliding scales used elsewhere for child care.

2. The second type of sliding scale uses family income to determine the percent of the full fee that a particular family has to pay. At low levels of family income, a family will pay a very small percentage of the total fee. At higher levels of income, the percentage paid will be higher, but often these sliding scale schemes provide some level of assistance to all families.

6.6 FUNDING LESSONS FROM THE QUEBEC EXPERIENCE

With apologies to colleagues in Quebec, there are many negative lessons to learn from Quebec's experience in child care funding reform from 1997 through till today.

The major thing that Quebec did get right was making licensed child care very affordable for Quebec families, both at preschool and school ages.

Another thing that Quebec did get right was increased generosity and accessibility of maternity/parental benefits. The basic plan in Quebec involves 18 weeks of maternity benefit paying 70% of previous average weekly income and 32 weeks of parental leave (which may be shared between parents). The first 7 weeks of parental leave are compensated at 70% of previous average weekly income and the next 25 weeks at 55%, up to a maximum. The special plan in Quebec involves 15 weeks of maternity benefit paying 75% of previous average weekly income and 25 weeks of parental leave (which may be shared between parents) also compensated at 75% of previous average weekly income, up to a maximum. There is no two-week waiting period before benefits start in Quebec. There are also paternity benefits available in a basic plan or special plan and available exclusively to the biological father. The basic plan has 5 weeks of paternity benefits, available on a use-it-or-lose-it basis, compensated at 70% of previous average weekly income. The special plan has 3 weeks of paternity benefits, again available on a use-it-or-lose-it basis, compensated at 75% of previous average weekly income. Self-employed income is considered eligible under these Quebec plans. Adoptive parents are eligible for parental benefits in Quebec. For those of you familiar with maternity/parental leave arrangements in the rest of Canada, you will recognize that those in Quebec are more generous, flexible and more encouraging of fathers' participation.

A third thing that Quebec got right was the creation of a network of high-quality not-for-profit services called CPEs (Centres de la Petite Enfance, or Early Childhood Centres). These have been found to have important positive effects on children's development (Fortin, 2018).

However, the roll out of child care services and funding had real problems in Quebec. There's an ancient Greek proverb, whose current English expression is "there's many a slip 'twixt the cup and the lip". Quebec's child care reform experience gives a good sense that developing excellent theoretical models of child care funding does not guarantee that the plans will not go awry.

Quebec's original model was to have supply-side base funding for not-for-profit Early Childhood Centres (CPEs) which would also become local hubs for accessing home child care as an option[10]. Parents would pay a flat fee of only $5.00 per day for child care. At school age, child care would be available through the school system for before-and-after school child care.

The school system was able to build out capacity very quickly, but not so the not-for-profit centres which were to be the foundation and major providers of care for the Quebec reforms. There was not enough capacity for the huge flood of demand for child care that resulted from making it much more affordable.

As a result, four things happened (Fortin, 2017b).

1. Middle to higher income families were disproportionately likely to access the (better quality) CPE spaces (Haeck et al., 2015). Lower income families ended up disproportionately in lower quality forms of care, or on a waiting list (Japel et al., 2009). When major new early childhood education and care programs are rolled out, it is important to ensure that they are of benefit to families that are more disadvantaged. A policy that focuses on lowering current child care prices will initially benefit families currently using regulated child care, especially those that are in the middle and upper ranges of the income distribution, so this is difficult to achieve and requires specific policy attention. Without special measures, those who need assistance most are least likely to receive it.

2. Family home day care came to have a much bigger role in the emerging child care system than was originally intended. Now, approximately one-third of all children 0-4 are in home child care. Home child care can be especially important in small cities, towns and rural areas and for parents working non-traditional hours or on weekends. However, the amount of early childhood training and knowledge of family day care providers in Quebec is minimal; most studies of quality in subsidized family day care find that it is not of the educational quality that the Quebec system anticipates (see Chart 1).

3. The system came to rely on for-profit centre care providers[11]. Right from the beginning there were not enough not-for-profit CPE spaces so the government developed a plan to

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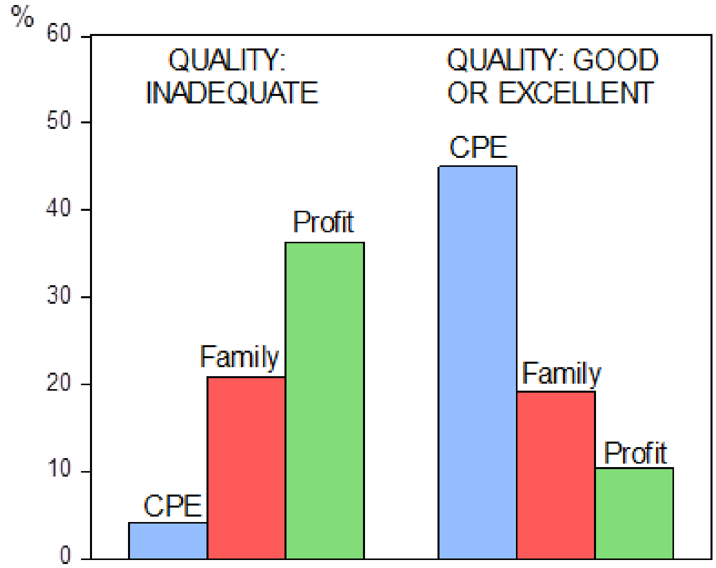
[10] Studies suggest that the CPEs are generally of much higher quality than other forms of child care in Quebec (Drouin et al., 2004; Cleveland and Bigras, 2013; Institut de la Statistique du Quebec, 2015) and have positive effects on children's development (I. Laurin et al., 2015; J. Laurin et al., 2015; Geoffroy et al. 2010; Herba et al. 2013)

[11] Recent experience in the U.K., Australia and the Netherlands suggests that expansion of demand-side funding typically leads to rapid increases in the proportion of for-profit providers, including large chain operators providing child care (Penn and Lloyd, 2013; Cooke and Henehan, 2012; Elliott, 2006).

"temporarily" rent spaces from for-profit operators. These for-profit operators were not required to have the same proportion of trained staff as CPEs. Non-profit subsidized early childhood centres (CPEs) are typically of good quality in Quebec, but there are not enough spaces in them to meet demand. The quality of for-profit centres is substantially



Note: "CPE" = early childhood centres (in 2014); "Family" = licensed family childcare (in 2003); "Profit" = for-profit full-fee garderies (in 2014).
Source: Institut de la statistique du Québec (2004 and 2015).

lower (Cleveland & Bigras, 2013; see also Chart 1). However, now about one-third of all children 0-4 are in for-profit centres. As explained above, lower-income families are more likely to have their children in these lower-quality for-profit centres.

4. The Quebec government, in 2009, expanded an existing tax credit for child care expenses into a major new funding mechanism for child care in the province. This tax credit covers expenses for unlicensed care as well as licensed care providers who are not directly funded under the low-fee scheme (the low-fee scheme was originally $5 per day, but is now on a sliding scale of payments). The tax credit provided an alternative form of sliding scale, but abandoned a central government role in promoting and ensuring quality of services. Under the tax credit scheme, the amount of for-profit child care in Quebec has increased very rapidly – for-profit full-fee child care multiplied by 12 times in 10 years (Fortin, 2017a).

Chart 1

Percent of Quebec children 18-66 months attending care of either inadequate or good/excellent quality, in three types of care

The moral of the Quebec story is that issues of transition matter enormously.[12]

Making licensed child care affordable today in Ontario would create a huge gap between supply and demand. Phasing-in affordability may not be popular; all families want help now. However, phasing-in can permit governments and the child care sector to increase the capacity of good quality services, and to recruit trained staff to provide these services. Building a good quality, well-regulated and monitored child care system takes time, but it is key to the positive experiences of Ontario children and parents.

6.7 THE CHILD CARE EXPENSE DEDUCTION

The Child Care Expense Deduction (CCED) is a frequently neglected and much misunderstood element of the child care affordability puzzle. The CCED is a deduction in the tax system available to reduce the effect of child care expenses as a barrier to labour force entry. This deduction reduces the income on which tax is payable for employed single parents and the lower earner in a two-parent family when both parents are employed.

There are two ways to think about the Child Care Expense Deduction. Either it is a way of providing assistance to families to make child care more affordable. If this perspective is true, the CCED is a poorly-designed demand-side subsidy that gives more money to the rich than the poor, and provides no incentives to use better-quality care. If this perspective is accurate, it should be abolished or, rather, replaced.

The other way to think of the Child Care Expense Deduction (Cleveland and Krashinsky, 1999) is as a measure for fair taxation. The CCED is not properly thought of as a way of financing child care; instead it is a measure to treat individuals (mostly women) equitably in the tax system. If there were no CCED, mothers wishing to enter the labour force would have to pay for their child care expenses out of income that had already been taxed (making those child care expenses much more expensive).

Since, for these mothers, child care expenses are a legitimate work expense, the dollars that pay for child care should not be taxed. Expenses on child care can be deducted up to a maximum whether they are for licensed or unlicensed care. The maximum amounts of child care expenses claimable are $8,000 per child for children 0-6 and $5,000 per child for children 7-16 years. However, actual levels of child care expenses are often much higher than this in Ontario.

[12] Haeck, Lefebvre and Merrigan (2015, p. 151) explain that because of the rush to provide spaces the government recruited daycare workers with no specific training in ECEC, did not enforce the curriculum, and did not enforce required ratios relating to qualified educators.

If this perspective is accepted (and we think it should be, even though many child care advocates think otherwise) then, because the Child Care Expense Deduction is a measure built into the federal tax system (it also affects provincial income taxes collected), it would make sense for the Ontario government to pressure the federal government to make the expenditure limits more reasonable…closer to actual costs of child care in Ontario.

The federal government has made important, but as yet only minor, financial commitments to funding child care in Canada. Naturally, the Ontario Government would be interested in maximizing federal financial contributions. It is worth noting then, that there is an interaction between Ontario child care funding and the federal Child Care Expense Deduction.

It works this way. If the Ontario government decides to provide much more generous funding to improve affordability of licensed child care and lowers the fees parents have to pay for child care, this will save the federal government a considerable amount of money on the CCED (parents will claim less tax relief on the CCED). The provincial government should, therefore, negotiate with the federal government to get its fair share of the money saved as it makes licensed child care more affordable. This issue is discussed with respect to Quebec child care by none other than Jean-Yves Duclos (now Minister of Families, Children and Social Development in the federal government) in Clavet and Duclos (2012).

6.8 CONCLUSIONS ABOUT ALTERNATIVE FUNDING APPROACHES

Demand-side funding has some positives. It does give parents full control over how to spend any assistance provided by governments (within the limits imposed by the voucher or tax credit system). Particularly for parents whose needs are atypical (shift work, long hours, children needing atypical care), demand-side funding may increase their power in negotiating what they need.

However, demand-side funding often leads to rapid price increases and cost increases (often due to higher vacancy rates). Competition in child care markets, being strongly geographically-based (i.e., only those services that are close to each other are in direct competition for parent dollars), appears to be insufficient to keep prices from rising substantially. Demand-side funding is typically associated with a rapid expansion of for-profit providers, frequently big-box chains, and a decline in quality. Once for-profit provision is established as the majority of provision, governments become less powerful in their ability to monitor and enforce quality improvements, and make regulatory changes that might impact the bottom line.

Supply-side funding has many more advantages. A fundamental advantage of supply-side funding is that governments have a direct relationship with providers; governments are the direct funders of the providers. This means that governments have considerable leverage with providers (even if a portion of them are for-profit providers) to insist upon and monitor constant quality improvements. This direct relationship gives government greater ability to control the supply and location of new child care facilities, to ensure that adequate good-quality facilities are available in rural and low-income areas, that services with longer hours are available, that facilities are not segregated by social class. By controlling supply, governments can also reduce excessive vacancy rates that are a problem in demand-side systems and that drive up per-unit costs of child care provision.

The disadvantage of supply-side funding is the flip side of these advantages – governments will take a large role and responsibility for quality, supply and various characteristics of child care supply. If governments do a poor job, supply-side funding will have poorer results. In many countries with successful supply-side funding, municipal governments play a major role in these supply and quality decisions and implementation. Usually, there is also an important role for parents and providers in collective management of the system's evolution. Ontario is fortunate in having a well-developed municipal role already.

In order to ensure that low-income families can afford and have good access to child care services, services should either be provided free of charge or with fees adjusted by a sliding scale based on family income. In addition, if there are service shortages as funding is phased in, local governments should develop means of ensuring that children from all income groups and backgrounds have a fair process of gaining access.

The Quebec experience of child care reforms suggests that managing the expansion of the system is very important if new services are going to be accessible, affordable and of high quality. It is not possible to make child care affordable immediately for all families because there is insufficient supply. As with full-day kindergarten, there must be a phase-in period over which affordability gradually increases and access to scarce services is fairly managed.

The current Child Care Expense Deduction, a part of the tax system, is best viewed as a way of improving tax fairness for the lower-earning parent in a family (often the mother). Without the Child Care Expense Deduction (CCED), this parent's wage has to cover both (a) the cost of child care and (b) the income tax on top of the part of income used to pay for that child care. The Child Care Expense Deduction (if large enough) eliminates the income tax on top of child care expenses, but still leaves the child care expenses. Since the cost of child care can be viewed as a necessary cost of employment, it is unfair and punitive to tax this part of income. It provides a big disincentive to employment.

In recent years, as the cost of child care has soared, the CCED covers only a portion of total child care costs for many families. The federal government should be encouraged to raise the value of this tax deduction to reflect actual costs.

CHAPTER 7: WHAT OTHER JURISDICTIONS DO

Chapter Summary

- Different child care funding and management approaches are often discussed discretely as either/or arrangements. In fact, most jurisdictions choose a combination of tools which have been tailored to deliver the type of child care system they want. We can learn how tools are combined to produce results in other jurisdictions.

- Many jurisdictions use a sliding scale of payments, where parents pay for child care according to their income. Our current subsidy system is one particular form of this, but there are many variations.

- Many jurisdictions provide substantial operating grants (sometimes known as base funding) to services. These operating grants serve twin purposes of supporting higher wage levels for child care staff and lower fees for parents.

- A third funding approach is to make available free child care services for some age group of children or for some number of hours per week.

- A fourth, quite different, funding approach is to provide a tax credit or voucher for parents in order to purchase child care. This is typically known as demand-side funding. This funding could be made available only for use with licensed/regulated services (as in Australia) or for whatever type of care the parent wishes to use (as in Quebec with the Tax Credit for Child Care Expenses).

- This chapter looks at the use of these tools in various countries and Canadian provinces.

- **England**

    - England's early childhood services are systematically divided into education, on the one hand, and care, on the other. Education services for children younger than compulsory school age are largely in the public sector and often in schools. They mostly serve children three to five years of age. Care services are largely in the private sector, with the lion's share being for-profit services and a smaller share being not-for-profit. Child care services are viewed as being a support for parental employment, not as education, and are typically quite expensive.

    - The central government provides funding to local authorities (i.e., municipalities) to ensure that every three and four-year-old has access to a part-time nursery education. This supply-side funding is paid to providers, public and private, to cover the costs of a nursery place for each child for up to 15 hours per week, 38 weeks per year.

- As of September 2017, working parents of three and four-year-olds living in England are entitled to the new 30 hours free childcare offer, worth around £5,000 per child (Can$8,600). That's an extra 15 hours of education/care for parents who each work and earn at least a little over £6,000 per year (Can$10,300). This is not available if you or your partner earn more than £100,000 per year (Can$172,000). The 30 hours of free child care can be redeemed at participating nursery schools and nursery classes, childminders, Sure Start Children's Centres, playgroups and preschools.

❖ **Australia**

- There are four major types of regulated child care (known as approved child care) in Australia – long day care (centre care for children 0-6), family day care, Out of School Hours Care (known as OSHC – before and after school centre care for children 6-12) and occasional care. About 45% of children 2-3 years of age use long day care and over 40% of children 4-5 years of age are enrolled in a full-day preschool program provided in a long day care centre. Many other 4-year-old children are in state-funded preschools (sometimes called kindergartens) at nominal fees.

- Australia has a new sliding scale of child care fees where families earning less than about AU$65,000 get 85% of costs covered, falling to 50% at about AU$170,000. Beyond AU$350,000 there is no child care fee assistance; assistance for fees is capped at AU$11.55 per hour, higher than most current fees. (The Australian dollar (AU$) and Canadian dollar (Can$) are of almost equal value, so we do not convert these currency figures into Canadian dollars).

- There are activity requirements to be eligible for this fee assistance. Low-income families who do not meet the activity requirements are eligible for 12 hours per week of child care for each child.

- Median fees in Australia for 0-5-year-olds are about AU$20,000 annually; increased generosity of funding over the years has lowered the fees that parents have to pay, but only temporarily – the general trend is up.

❖ **New Zealand**

- There are a number of different types of ECEC services in New Zealand. The predominant type of teacher-led service is centre-based ECEC, which children can attend either part-time or full-time and which caters for children from birth to school age. In New Zealand, children can choose to start school any time after their fifth birthday and must start school by the time of their sixth birthday.

- Another paid centre-based, teacher-led option is kindergarten; New Zealand kindergartens are generally community-based (i.e., not-for-profit) and focused on children from three to five years of age. Historically, kindergartens operated on a part-day basis, but now most operate for the full school day. There are also home-based services, typically in the caregiver's home but sometimes in a child's home. In all licensed services, there are required standards for curriculum, facilities, health and safety, governance and management.

- Most child care funding in New Zealand is provided on the supply side in order to keep parent fees low.

- There is also 20 hours of "free" ECEC provided to all 3- and 4-year-old children.

- All supply-side funding is provided to child care services through the Ministry of Education according to formulas based on cost-drivers.

- the Ministry of Social Development provides some additional subsidies to low-income families; there are income and activity requirements.

❖ **Denmark**

- Most child care funding in Denmark is supply-side funding, provided by municipalities to child care providers. Local authorities are required to ensure that there is a child care place for every child over 26 weeks of age whose parents want one (within 4 weeks of turning 26 weeks of age). The central government provides block grants to local municipalities and local governments raise tax money as well to fulfill these obligations.

- Parents can choose centre care or a home care child minder and the same subsidy will follow the child, based on the parents' choice. Public childminders are contracted by the municipality to provide the service. They are selected, trained, paid and supervised by the municipality.

- Most child care funding in Denmark is designed to keep parent fees relatively low. Parent fees are set annually by municipalities, and municipalities are required to fund child care providers so that parents pay no more than 25% of the actual cost of the service. There are also discounts for siblings.

- Parents on low incomes in Denmark receive an additional subsidy (an 'aided place subsidy') from the local authority, according to a nationally-set sliding scale.

- **Norway**
  - There are three types of child care (known as kindergartens) in Norway. Ordinary kindergartens (barnehager) can be public or private. They offer half-day or full-day service all year round for children between zero and five years of age. Family kindergartens (familiebarnehager) are based in private homes, where an assistant works with a maximum of five children, supervised and mentored by a qualified kindergarten teacher on a weekly basis. Open kindergartens (åpne barnehager) are part-time drop-in centres with programmes for parents and children to participate in together, led by a qualified kindergarten teacher.
  - Obtaining a place in kindergarten is a statutory right for every child, but participation in ECEC is voluntary.
  - About 50% of the centres in Norway are municipally owned and operated; the other 50% are run by private operators, most of them not-for-profit.
  - Most child care funding in Norway is supply-side operating funding. The government imposes a statutory fee cap on the parental fee for centre-based or family child care (NOK 2,655 per month in 2016 or about Can$418 per month or Can$4,600 per 11-month year). This means that parents cover about 15% of the cost of ECEC through parent fees. The bulk of the operating costs of ECEC are covered by government funding, that is about 85% of operating costs. About 90% of children 1-5 years of age attend child care.
  - A new plan provides 20 hours of free child care per week to 3-, 4- and 5-year-old children from families earning less than about Can$66,000 annually. Parents have to engage in some activity (e.g., Norwegian language courses) in order to be eligible.
- **Sweden**
  - Sweden has an integrated and largely universal child care system for children younger than school age, considered as a part of the education system (but voluntary). It is designed to support employment and study activities as well as providing play-based education for children at low or zero cost to parents.
  - The main type of child care in Sweden is centre-based preschool or förskola. Preschool is also available provided as home child care. Preschool serves

children 1-5 years of age (children younger than one year of age are nearly all cared for by their parents receiving relatively generous parental payments). Preschool is intended to be safe, fun and instructive; it promotes a philosophy of the equality of all individuals and particularly of girls and boys. Municipalities are responsible for ensuring that children who want to attend are provided a place in preschool – within four months of the request. Most of the preschools (81%) are municipally owned and operated. About 19% of centres are independently operated – run by parents, staff or as a business.

- The central government defines goals and objectives of child care, such as the national curriculum. Municipalities play the main role in implementing policy, planning and delivering ECEC services. Municipalities also determine working conditions and pay of child care staff locally. Municipalities receive annual quality reports and pedagogical documentation from child care services

- In Sweden, the parent fee depends on parental income in a scheme known as Maxtaxa. Under this scheme, parents are charged no more than 3% of household income for one child in preschool/child care up to a maximum monthly household income. The maximum a family could have to pay per month for one child in preschool is approximately Can$209 per month.

- For the second child, the maximum charge is another 2% of household income, and another 1% for the third.

❖ **Quebec**

- Quebec has a network of Early Childhood Centres and family homes that were the original heart of their system of reduced-fee child care services. The base rate for this child care is now (2017) $7.75 per day for families earning less than about $50,000. For other families, there is a sliding scale of payments rising to $21.20 per day at about $160,000 and above.

- For families not using reduced-fee child care in Quebec, there is a tax credit for child care expenses – a different sliding scale of payments. Families earning less than about $35,000 will be reimbursed through the tax system for 75% of the full fee; families earning more will be reimbursed less; families earning above about $155,000 will be reimbursed 26% of the full fee.

❖ **Prince Edward Island**

- Recently, Prince Edward Island has reorganized existing licensed child care programs into a publicly-managed network of Early Years Centres and Infant

Homes; fees are regulated, wages are based on a common salary scale, there is sector planning, professional development and management support.

- PEI requires two-thirds of staff to be qualified at two-year ECE diploma or above.

- **Manitoba**

  - Manitoba has pioneered many innovations in management of a child care system. Manitoba provides base funding to services willing to become a funded facility. Funded facilities are not-for-profit centres and family homes that are willing to cap fees; two-thirds of staff are required to have an ECE diploma, however, there are important problems recruiting sufficient staff.

This chapter reviews child care funding policies and effects in a number of countries and provincial jurisdictions in Canada. The countries include England, Australia, New Zealand, Denmark, Norway, and Sweden[13]. The provinces include Quebec, Prince Edward Island, and Manitoba.

7.1 GENERAL FUNDING APPROACHES

Many jurisdictions use a sliding scale of payments, where parents pay for child care according to their income. Our current subsidy system is one particular form of this, but there are many variations. In particular, there are variations that are more generous and that provide some guarantee that child care spaces are available to eligible families.

Many jurisdictions provide substantial operating grants (sometimes known as base funding) to services. These operating grants serve twin purposes of supporting higher wage levels for child care staff, and lower fees for parents. The grants could be designed to leave parents with a flat fee (e.g., $25.00 per day), or they could be combined with a sliding scale of fees (covering the service costs not covered by parental contributions).

A third funding approach is to make available free child care services for some age group of children or for some number of hours per week. Of course, this would need to be supported by the provision of 100% operating funding to child care services by government for that age group and those hours.

[13] These are chosen as countries from whom we often borrow social policy innovations, or ones that have made a priority of improving child care affordability. We considered including the United States, but many of their early childhood policies are state-based and the diversity makes these policies difficult to summarize.

A fourth, quite different, funding approach is to provide a tax credit or voucher for parents in order to purchase child care. This is typically known as demand-side funding. This funding could be made available only for use with licensed/regulated services (as in Australia) or for whatever type of care the parent wishes to use (as in Quebec with the Tax Credit for Child Care Expenses).

There are many complementary policies which can be used in conjunction with these funding approaches. Obviously maternity/parental leave and benefits is a policy that can dramatically alter child care use for very young children. In addition, the Child Care Expense Deduction changes the net price of child care for parents; we discuss this elsewhere. Further, complementary policies to enhance compensation and qualifications of staff and develop salary scales and career ladders can be very important to the quality of services provided and the ability to recruit and retain qualified staff.

Another complementary tool can be putting a cap on fees, either through restrictions on what fee levels will be covered by a sliding scale, or with more direct controls. And finally, there are related issues around the role of not-for-profit, for-profit and public providers in the provision of services; many jurisdictions place restrictions on the role of for-profit providers. In Ontario, the role of the municipalities in administering and possibly amending the funding system is also of critical importance to consider.

These policies are complicated. Each broad approach has multiple possible variations. And the ways in which different funding approaches are combined within one funding system both enrich and complicate the picture. One way of deepening a discussion of best funding approaches is to look in some depth at what other countries and provinces have done.

Nearly every jurisdiction, both in Canada and in other countries adjusts child care fees so that lower income families pay less than other families. We will use the term “sliding scale” to refer to these systems of fee adjustment, although that description seems to fit some examples better than others. The predominant rationale for these sliding scales is one of equity: lower income families cannot afford the same level of fees as higher-income families. At full fee levels, child care is truly unaffordable for many families and especially lower-income families.

However, there is a strong “efficiency” argument, too. The effects of access to child care are found to be very positive in changing the lives of both children and parents in low-income families, as long as that child care is of reasonably good quality. The large majority of studies of child care’s effects on children’s development find that the positive effects are larger for children from lower-income families. And access to child care is likely to have substantial positive effects on family incomes because it helps to overcome an important barrier to parental employment.

Hence, differential fee levels according to parental incomes are found in nearly all jurisdictions. This similarity masks very important differences, however, as to the mechanisms used to adjust fees, the generosity of the fee relief and the centrality of these fee adjustments in the funding system of each jurisdiction.

7.2 ENGLAND

England's early childhood services are systematically divided into education, on the one hand, and care, on the other. Education services for children younger than compulsory school age are largely in the public sector and often in schools. They mostly serve children three to five years of age. Care services are largely in the private sector, with the lion's share being for-profit services and a smaller share being not-for-profit (typically called the voluntary sector in England). Child care services are viewed as being a support for parental employment, not as education, and are typically quite expensive.

The central government provides funding to local authorities (i.e., municipalities) to ensure that every three- and four-year old has access to a part-time nursery education. This supply-side funding is paid to providers, public and private, to cover the costs of a nursery place for each child for up to 15 hours per week, 38 weeks per year. This funding is known as the Early Years Entitlement (or EYE). Over 60% of the EYE goes to the state education sector, but there is a considerable amount that goes through the private sector as well. You can also get this 15 hours of free nursery education if your child is age 2 and you are on income support or otherwise have a very low income.

As of September 2017, working parents of three and four-year-olds living in England are entitled to the new 30 hours free childcare offer, worth around £5,000 per child (Can$8,600). That's an extra 15 hours of education/care for parents who each work and earn at least a little over £6,000 per year (Can$10,300). This is not available if you or your partner earn more than £100,000 per year (Can$172,000). The 30 hours of free child care can be redeemed at participating nursery schools and nursery classes, childminders, Sure Start Children's Centres, playgroups and preschools.

Tax-Free Childcare is only available to working parents, including the self-employed. For every £8 (Can$13.80) parents put in this savings account, the government will supplement this with an extra £2(Can$3.45), up to £2,000 per year (Can$3,450). Despite its name, the scheme has little to do with the tax system. The basic rate of tax in England is 20%, so when the government contributes £2,000 (Can$3,450) out of your child care costs of £10,000 (Can$17,200), it is as if you did not have to pay the basic rate of tax on the income you used to pay for child care. You are not eligible for Tax-Free Childcare if you or your partner earns £100,000 per year or more. The government contribution is bumped up to £4,000 per year (Can$6,900) for a disabled child under 17 years of age.

Universal Credit is a monthly payment to help with your living costs, designed to "incentivize work". You may be able to get it if you're working on a low income or out of work. Universal Credit is being phased in over the next few years. It will replace a number of existing benefits, including the Child Tax Credit and the Working Tax Credit (see White and Friendly, 2012, for description of these earlier tax credits). If you, and any partner, are working, or you're due to start work, and you're claiming Universal Credit, you can claim back up to 85% of your eligible child care costs for children under 16. You could get up to £646 a month (Can$1,100) for one child, or £1,108 (Can$1,900) for two or more. You can use it to help pay: registered childminders, nurseries, and nannies; registered after-school clubs and play schemes; registered schools; home care workers working for a registered home care agency.

7.3 AUSTRALIA

There are four major types of regulated child care (known as approved child care) in Australia – long day care (centre care for children 0-6), family day care, Out of School Hours Care (known as OSHC – before and after school centre care for children 6-12) and occasional care. About 45% of children 2-3 years of age use long day care and over 40% of children 4-5 years of age are enrolled in a full-day preschool program provided in a long day care centre. Many other 4-year-old children are in state-funded preschools (sometimes called kindergartens) at nominal fees.

Australia has a new sliding scale child care funding scheme, called the Child Care Subsidy, which has passed through Parliament and will be implemented in July 2018. It replaces two other funding streams, one of which was a sliding scale and one of which was not. Under the new Child Care Subsidy, families will be able to claim subsidy for a number of types of approved child care (essentially similar to licensed child care in Canada). Families earning up to AU$65,710 will pay 15% of the cost of the child care services they use, up to a cap; in other words, these families will have 85% of the costs subsidized. The cap is set at AU$11.55 per hour (or AU$115.50 per 10-hour day). Any amount beyond this price per hour remains to be paid by the family. Note that the Australian dollar (AU$) and Canadian dollar (Can$) are of almost equal value, so we do not convert these currency figures into Canadian dollars.

Beyond AU$65,710 annually, families will have their subsidy coverage reduced by 1 percentage point for each additional AU$3,000 of family income. So, for instance, at AU$68,710 income, the family would have 84% of its costs subsidized, rather than 85%. And, at AU$95,710, the family would have 75% of its costs subsidized. This continues up to AU$170,710 of income, at which point a family will have 50% of its child care costs subsidized. From AU$170,710 of income out to AU$250,000, the sliding scale takes a pause and families at all these income levels get 50% subsidy. The rationale for this design was to avoid disadvantaging too many families relative to previously existing schemes – the Child Care Rebate used to cover 50% of parents' out-of-pocket child care costs.

Beyond AU$250,000, the subsidy again declines at a rate of 1 percentage point for every additional AU$3,000 of family income out to AU$340,000; at this income level, families have 20% of their child care costs subsidized. The 20% coverage continues to AU$350,000; beyond this income level, there is no subsidy available.

There are a couple of other conditions on this Child Care Subsidy. First, families earning over AU$185,000 per year will only be covered for up to AU$10,000 of child care expenses per year. Second, there is an activity requirement for this sliding scale. Approved activities include employment, self-employment, business, education and even some kinds of volunteering. All parents in a family need to be engaged in approved activities for at least four hours per week in order to qualify for 18 hours per week of subsidy. If all parents are "active" for more than eight hours per week, but less than 24, they will qualify for 36 hours of subsidy per week. If parents are active for 24 or more hours per week, they will qualify for up to 50 hours of subsidy.

Table 38
Fee subsidy as a % of Family Income

Combined Family Income	Subsidy as % of actual fee charged up to hourly fee cap
Up to AU$65,710	85 percent
AU$65,711 – AU$170,709	Tapering to 50 percent – falling 1 percentage point for each AU$3,000 of income
AU$170,710 – AU$249,999	50 percent
AU$250,000 – AU$339,999	Tapering to 20 percent – falling 1 percentage point for each AU$3,000 of income
$AU340,000 – AU$349,000	20 percent
$AU350,000 and above	0 percent

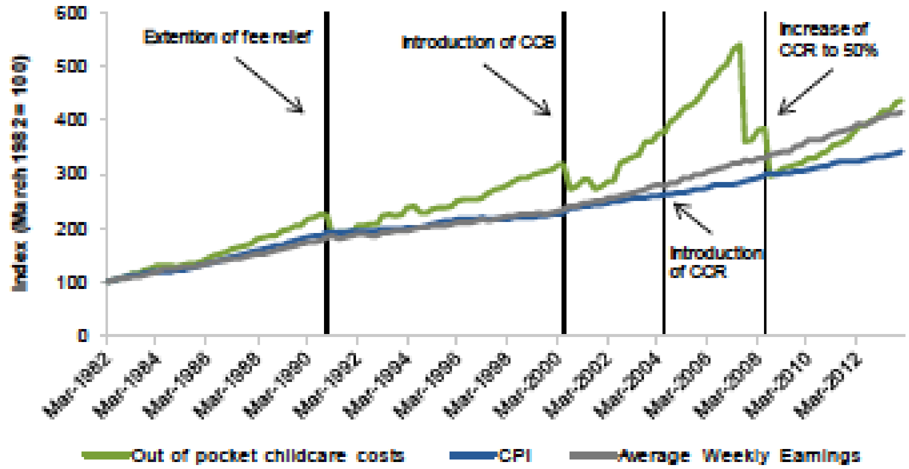
The median daily child care fee for children younger than school age in Australia is now AU$77 (or AU$385 per week, or about AU$20,000 for a full year). Since 2005, child care prices have been rising more rapidly than inflation. This is predicted to continue.

The chart below (Productivity Commission, 2014, p.475) records the out-of-pocket child care costs that parents have paid over the years in Australia as compared to the trend of general prices. Each time there has been an increase in child care funding, designed to increase affordability, it has had that immediate effect. However, shortly after that, fees have risen sufficiently to wipe out much of the affordability improvement. In a free-market child care system, it is hard to avoid this.

Chart 2 Growth in Out-of-Pocket Child Care Costs as Compared to Rise in General Price Level

Figure 11.19 **Growth in out-of-pocket childcare costs compared with general prices[a,b]**

Quarterly index of childcare sub group of CPI, weighted average of eight capital cities



[a] The ABS did not include the CCTR/CCR in the Childcare CPI estimate until 2007. This is the reason why there is a sharp drop in childcare prices at this time [b] The CCR was initially a tax rebate that allowed families with a tax rebate to offset 30 per cent of their childcare expenses and was known as the Child Care Tax Rebate (CCTR). It was renamed the CCR in 2009.

Source: ABS (2014b).

As a result of recommendations from the Productivity Commission, Australia has now put a cap on the child care prices it will subsidize. This cap is now set at AU$11.55 per hour of child care. This cap is intended to put a lid on price rises, but it is substantially higher than current fees, so it is unlikely to be immediately effective.

In Australia, families who earn less than AU$65,710 per year are eligible for 85% subsidy on child care even if they do not meet the activity requirement. However, their children are only entitled to 12 hours per week of child care in this case.

7.4 NEW ZEALAND

There are a number of different types of ECEC service in New Zealand. Amongst licenced services, there is a division between teacher-led and parent- or whanau-led services (whānau is a Māori word referring to an extended family group in that community). Teacher-led services are led by professional trained teachers.

The predominant type of teacher-led service is centre-based ECEC, which children can attend either part-time or full-time and which caters for children from birth to school age. In New Zealand, children can choose to start school any time after their fifth birthday and must start school by the time of their sixth birthday. Many children start school at 5 years of age.

Another paid centre-based, teacher-led option is kindergarten; New Zealand kindergartens are generally community-based (i.e., not-for-profit) and focused on children from three to five years of age. Historically, kindergartens operated on a part-day basis, but now most operate for the full school day. There are also home-based services, typically in the caregiver's home but sometimes in a child's home. In all licensed services, there are required standards for curriculum, facilities, health and safety, governance and management.

There are two main types of parent/ whānau-led services that are licensed: playcentres and te kohanga reo. Kohanga reo are centres in which children are totally immersed in the Māori language and culture.

Most of New Zealand's child care funding is directed at reducing fees for all children through payments to providers. On top of that there are 20 hours of free ECEC that children of 3 and 4 years of age are eligible for.

In addition to supply-side funding, the Ministry of Social Development provides child care subsidies that are income-tested. These subsidies are for children 0-6 years of age. Families with low incomes can access between 3 and 9 hours of ECEC per week even if parents do not meet activity requirements.

However, if parents are looking for subsidies to cover between 9 and 50 hours per week of child care, they have to meet both income and activity requirements to qualify. New Zealand's income test is different from some other income tests in a couple of ways. First, the payment is not a percentage of the total cost of care. Rather, it is a fixed dollar amount of subsidy. Second, the income at which subsidy is triggered varies with family size. This may be fairer; a larger family with the same income as a smaller one is effectively less well off.

Families with one child receive maximum subsidy when their incomes are below NZ$800 (Can$725) per week (NZ$41,600 for a full year [Can$37,700]). The threshold is higher with two children - NZ$920 (Can$835) per week (or NZ$47,840 for a full year [Can$43,420]) – and higher still with three or more children - NZ$1,030 (Can$935) per week (or NZ$53,560 for a full year [Can$48,620]). That maximum subsidy is a fixed dollar amount - NZ$5.06 per hour (Can$4.60). As incomes for each of these family sizes rise, the eligibility for subsidy assistance falls. Subsidy eligibility disappears for these three family sizes at NZ$1,400, NZ$1,600 and NZ$1,800 per week (or NZ$72,800, NZ$83,200 and NZ$93,600 for a full year). In Canadian dollars, subsidy eligibility for these three family sizes disappears at Can$1,270, Can$1,450, and Can$1,630 per week, or Can$66,040, Can$75,400, and Can$84,760 per year.

Notice that the eligibility for subsidy jumps down as income increases, providing somewhat perverse incentives not to earn too much money. For instance, a family with one child earning NZ$799 per week (Can$724) is eligible for $5.06 per hour of subsidy (Can$4.60). Yet the same family earning NZ$800 per week (Can$725) is only eligible for NZ$4.04 per hour (Can$3.65). On a full year basis, for 50 hours per week, this family's subsidy would fall from NZ$13,156 (Can$11,960) to NZ$10,504 (Can$9,490) due to earning an extra NZ$1.00 per week! A number of other subsidy systems are similarly designed.

7.5 DENMARK

Most child care funding in Denmark is supply-side funding, provided by municipalities to child care providers. Local authorities are required to ensure that there is a child care place for every child over 26 weeks of age whose parents want one (within 4 weeks of the child turning 26 weeks of age. The central government provides block grants to local municipalities and local governments raise tax money as well to fulfill these obligations. Parents can choose centre care or a home care child minder and the same subsidy will follow the child, based on the parents' choice. Public childminders are contracted by the municipality to provide the service. They are selected, trained, paid and supervised by the municipality.

Most child care funding in Denmark is designed to keep parent fees relatively low. Parent fees are set annually by municipalities, and municipalities are required to fund child care providers so that parents pay no more than 25% of the actual cost of the service. There are also discounts for siblings. As an example, parent fees in Rudersdal Commune on the outskirts of Copenhagen ranged from about Can$4,000 to nearly Can$9,000 in 2017 (varying by age of child and type of care). Danes spend between 7% and 10% of their after-tax income on child care.

Parents on low incomes receive an additional subsidy (an 'aided place subsidy') from the local authority, according to a nationally-set sliding scale. In 2012, parents with an annual household income of DKK 485,500 (about Can$97,000) or above pay the set full fee. Families with incomes below this level pay varying amounts based on income. For instance, parents with earnings between DKK 312,226 – 315,690 (about Can$63,000) pay 50% of the fee and parents with earning of DKK 156,301 (about Can$31,200) or lower are exempt from ECEC fees. There is an additional subsidy for single parents.

7.6 NORWAY

There are three types of child care (known as kindergartens) in Norway. Ordinary kindergartens (barnehager) can be public or private. They offer half-day or full-day service all year round for children between zero and five years of age. Family kindergartens (familiebarnehager) are based in private homes, where an assistant works with a maximum of five children, supervised and mentored by a qualified kindergarten teacher on a weekly basis. Open kindergartens (*åpne barnehager*) are part-time drop-in centres with programmes for parents and children to participate in together, led by a qualified kindergarten teacher.

Obtaining a place in kindergarten is a statutory right for every child, but participation in ECEC is voluntary. About 50% of the centres in Norway are municipally owned and operated; the other 50% are run by private operators, most of them not-for-profit.

Most child care funding in Norway is operating funding provided in order to keep parent fees relatively low. The government imposes a statutory fee cap on the parental fee for centre-based or family child care (NOK 2,655 per month in 2016 or about Can$418 per month or Can$4,600 per 11-month year[14]). This means that parents cover about 15% of the cost of ECEC through parent fees. The bulk of the operating costs of ECEC are covered by government funding, that is about 85% of operating costs. About 90% of children 1-5 years of age attend child care.

In addition, there are special funding provisions for lower-income families. Norwegian municipalities have the central operational, administrative and funding role in child care and municipalities have also been responsible for developing subsidy schemes for lower-income families who are not able to afford parental fees. However, since the design of these subsidy schemes has not been mandated, there has been large variation in these plans, with some municipalities only giving very small reductions in child care fees to low-income families. In 2015, the national government has mandated that families earning less than about Can$25,000 may not pay more than 6% of their family income for the first child in child care. The second child would cost 70% of this fee and the third and subsequent children would cost 50%. The median income in 2015 of couples with children 0-6 years of age in Norway is about Can$117,000 annually.

A new plan provides 20 hours of free child care per week to 4- and 5-year-old children from families earning less than about Can$66,000 annually (for 2016-17). Parents have to engage in

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[14] Norwegian kindergartens are typically open 11 months a year, with the last month (usually July) regarded as a summer holiday. Annual intake is in August.

some activity (e.g., Norwegian language courses) in order to be eligible. From 2016, this has been extended to 3-year-old children.

7.7 SWEDEN

Sweden has an integrated and largely universal child care system for children younger than school age, considered as a part of the education system (but voluntary). It is designed to support employment and study activities as well as providing play-based education for children at low or zero cost to parents.

The main type of child care in Sweden is centre-based preschool or *förskola*. Preschool is also available provided as home child care. Preschool serves children 1-5 years of age (children younger than one year of age are nearly all cared for by parents receiving relatively generous parental payments). Preschool is intended to be safe, fun and instructive; it promotes a philosophy of the equality of all individuals and particularly of girls and boys. Municipalities are responsible for ensuring that children who want to attend are provided a place in preschool – within four months of the request. Most of the preschools (81%) are municipally owned and operated. About 19% of centres are independently operated – run by parents, staff or as a business.

Central government defines goals and objectives of child care, such as the national curriculum. Municipalities play the main role in implementing policy, planning and delivering ECEC services.

Municipalities also determine working conditions and pay of child care staff locally. Municipalities receive annual quality reports and pedagogical documentation from child care services Local municipalities are responsible for funding of ECEC services in Sweden, with grants from the central government, and for fulfilling the legal obligation to provide an ECEC place from age one to every child who applies for it. Full-day, full-year preschool is not free-of-charge to working and studying parents, but the maximum parent contribution is controlled. The charge to the parents depends on parental income in a scheme known as Maxtaxa. Under this scheme, parents are charged no more than 3% of household income for one child in preschool up to a maximum monthly household income of 45,390 SEK (January 2017 – about Can$6,950). That means that the maximum a family could have to pay per month for one child in preschool is 3% of 45,390 SEK or 1,362 SEK per month. At current exchange rates, that is approximately Can$209 per month, or Can$2,500 per year. That is the maximum charge for one child, for families with an income of about Can$83,400 per year or more. Families with lower incomes would pay less using the 3% rule.

Families with more than one child in preschool will pay more than this. For the second child, the maximum charge is another 2% of household income (or at maximum about Can$140 per month). For a third child, the maximum charge is 1% of household income up to about Can$70 per month.   In total, parents pay approximately 10% of the total cost of providing child care/preschool in Sweden

7.8 JURISDICTIONS IN CANADA

The most significant development in terms of establishing affordable early learning and child care across Canada in recent years has been the expansion of kindergarten and pre-kindergarten programs. Newfoundland and Labrador, PEI, Nova Scotia, New Brunswick, Quebec, Ontario, British Columbia and Yukon Territory now offer full school day kindergarten for five-year-olds. Ontario and NWT also offer full school day kindergarten for four-year-olds. Quebec, Manitoba, Saskatchewan, Alberta and the Yukon Territory offer varying amounts of kindergarten for four-year-olds usually targeted to vulnerable populations. This has certainly reduced the pressure on the length of time that parents are required to pay for full-day child care services, but the price still limits the choices for most parents for their children under 4 or 5.   For children 0-4, fees for licensed child care continue to be out of reach for the majority of middle-income parents.

A 2017 study of licensed child care fees in Canada found the following average monthly fees in selected cities:

Table 39
Average Monthly Fees in Selected Cities, 2017

	Toronto	Montreal	Charlottetown	Winnipeg	Vancouver
Infants	$1,758	$168	$738	$ 651	$1,360
Toddlers	$1,354	$168	$608	$451	$1,292
Preschool	$1,212	$168	$586	$451	$950

Source: Macdonald and Friendly (2017)

There has been expansion and improvements in access in all provinces and territories in Canada. But, there are three provinces that have done the most to address the affordability issue. Prince Edward Island, Quebec and Manitoba.

7.8.1 Quebec

There has already been significant discussion about Quebec's child care policies and effects in Chapter 6, under the heading "Funding Lessons from the Quebec Experience."

Quebec is the province that has done the most to make child care affordable. There have been correspondingly dramatic increases in the use of licensed child care in Quebec as well as a significant increase in the labour force participation of mothers.

Quebec has two different sliding scales[15]. One applies to families using reduced-fee child care (what was originally known as $5 per day child care). Regulated home child care, not-for-profit CPEs (Centres de la Petite Enfance, or Early Childhood Centres), and some for-profit child care is known as reduced-fee child care. It is no longer available at $5 per day. As of January, 2017, the basic rate became $7.75 per day. If your family income after deductions (line 275 of the Quebec income tax form – equivalent to line 236 on the Ontario income tax form) amounts to $50,920 or less, you have no more to pay.

Above $50,920, you must pay $8.45 per day, unless your family income is at least $76,380. From this income level up, the parental fee contribution rises gradually ($0.15 per day for every $1,000 of family income) until it reaches $21.20 per day at an income level of $161,380. The maximum daily rate is $21.20.

To put this in annual terms (assuming a full year of 261 days of child care), the basic rate for this reduced-fee child care is $7.75 per day or annually, $2,022.75. At $76,380 of family income, you would pay $2,205.45 annually. At the maximum fee, you would pay $5,533.20 per year.

The second child in a family incurs a fee that is half of the fee for the first child, and a third and subsequent child will receive reduced-fee child care for no additional charge.

The basic rate of $7.75 per day is paid directly to the child care centre or home provider from whom you receive child care services. Any extra amount is calculated at the end of the year when your taxes are filed. Of course, it is possible to get your employer to increase deductions earlier in the year to cover these extra child care costs which might otherwise be a surprise at tax time.

I said above that Quebec has two different sliding scales. Families who do not use reduced-fee child care in a centre or home can instead claim a tax credit for child care expenses that is very generous, and is geared to the level of family income. The tax credit can be used to cover part of the cost of nearly any paid type of child care, other than reduced-fee child care or care by parents. The only requirements are that at least one of the parents is in an approved activity (such as employment, business, education, research funded by a grant or maternity/parental leave), and that there be proof of the child care expenses.

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[15] See the calculator at http://www.budget.finances.gouv.qc.ca/budget/outils/garde-net-en.asp, in order to compare these two alternatives from the point of view of the parent.

The table below shows the different levels of the sliding scale. As you can see, families with income below $35,060 will have 75% of their child care expenditures refunded, and so on.

Table 40
Child Care Fee Subsidy Relief as a % of Family Income

Family Income	Percent of child care expenditures refunded
$0 - $35,060	75%
$35,061 - $41,545	70%
$41,546 - $48,050	65%
$48,051 - $96,085	60%
$96,086 - $137,940	57%
$137,941 - $141,860	50%
$141,861 - $145,780	44%
$145,781 - $149,695	38%
$149,696 - $153,635	32%
$153,636 or over	26%

It seems as if the tax credit for child care expenses will be more expensive for the parent than the reduced-fee child care However, because reduced-fee child care triggers smaller amounts of tax reduction under the federal Child Care Expense Deduction, the two alternatives leave most parents in very similar positions.

One potential objection to this kind of tax credit is that families will not receive assistance until long after the child care expenditures take place. In fact, it is relatively simple to arrange for monthly payments of reimbursement to be made in advance of the reconciliation of accounts at tax time.

7.8.2 Prince Edward Island

Significant changes to both Prince Edward Island's kindergarten and regulated child care system were introduced in 2010. Full-day kindergarten in the schools was also announced at this time, starting in 2011. This had a large impact on the existing regulated child care programs.

Prince Edward Island introduced a new policy framework, *Securing the Future for Our Children: Preschool Excellence Initiative* transforming the regulated child care system. It reorganized existing licensed child care programs into a publicly-managed network of Early Years Centres and Infant Homes. This reorganization resulted in the regulation of parent fees, wage enhancements based on a common salary scale, training and a career ladder for staff as well as sector planning, professional development and management support to programs. Centres transitioning to Early Years Centres were required to cap fee increases, meet the criteria of being an Early Years Centre and provide financial information to allow the Department to assess their need for base funding.

Existing centres were given the option to apply to become an Early Years Centre (EYC), remain a regulated private non-EYC centre or retire their license (with compensation). The Sector Adjustment Measures Program offered existing operators an option to sell their license and also worked on converting available space in schools for Early Years Centres. Bridge funding was provided during the transition. There are currently 47 Early Years Centres and one family home child care provider (directly licensed by the province).

The Early Years Centres and Infant Homes are required to implement the Early (0-4) Learning Framework Curriculum. New professional classifications were introduced to improve quality and offer a career ladder for educators. All staff working in Early Years Centres and Infant Homes have to have at least a 90-hour entry level certificate or a one-year ECE Diploma. There are now four staff classifications in the Early Years Centres:

- Director - post-diploma or Degree;
- Certified Level 2 - 2-year diploma program
- Certified Level 1 - 1 year certificate program
- Certified Entry - 90-hour entry level certificate.

Only PEI and Manitoba require a post-diploma or degree credential for Directors of Early Learning and Child Care Centres. PEI also requires two-thirds of its staff to be certified at Level 2 or above.

PEI has adopted a wage grid in the Early Years Centres for each of these classifications. The province used this wage grid to calculate the amount of base funding. Providers offering family home child care are also required to complete a 30-hour training program as well as having letters of reference and a first-aid certificate.

The daily parent fees set by the province are currently:

Infants:	$32
Toddlers:	$26
Preschool	$25

Fees in Charlottetown are now the third least expensive among Canada's main cities.

The Early Years Centres receive quarterly base funding (unit funding) based on a formula that provides operating funding to meet the centres' expenses together with parent fees or a fee subsidy for eligible families. Quality Enhancement Grants and Special Needs Grants are also available.

This initiative was aimed at achieving four of the key elements in the delivery of early learning and child care services:

- Public management of regulated programs: to address quality, accountability for funding
- Capped parent fees: to address parent affordability
- Curriculum and professional qualifications: to address quality improvement
- Fixed salary grid: to stabilize wages, attract and retain professionals to the profession.

No other province has yet introduced a wage grid or taken over leadership and direction of its early learning and child care programs to this extent. Alberta has recently introduced a pilot project involving capped fees at $25 a day with the government paying operating grants to ensure operational viability but there are only 22 centres participating and the pilot is expected to last three years followed by a rigorous evaluation. Attempts to ensure high quality, flexible hours and inclusion of children with special needs are significant aspects of this pilot.

7.8.3 Manitoba

Manitoba has had a number of the same elements in its child care system as does Prince Edward Island, and Manitoba pioneered many of these reforms. Manitoba has had maximum parent fees in place for all those non-profit centres that opt in. Base funding is provided to the child care centres to make up the difference between the parent fee/subsidized fee and the actual cost of the service.

Daily parent fees are capped at the following amounts and are the second lowest in Canada.

	4-10 Hours	Over 10 Hours

Infants:	$28.00	$42.00
Preschool:	$18.80	$28.20

Both regulated child care centres and (directly-licensed) family home providers receive provincial operating grants (base funding) to make up the difference between the parent fee/fee subsidy and the actual cost of operations.

Although Manitoba represents the second most publicly-managed system in Canada, it still experiences substantial staff shortages mainly because of low wages. Even though Manitoba requires that two-thirds of its staff hold at least Level 2 qualifications, the shortage of staff has led to a sharp erosion of this requirement in order to keep centres functioning.

The Manitoba Child Care Association has developed a suggested salary grid and benefit package for use by Manitoba's child care centres but use of this grid is not mandatory and at present the actual salaries are still below the recommended amounts.

Manitoba has, however, introduced several creative initiatives to attract, recruit and retain early childhood educators in the system. These initiatives include:

- Introduction of a classification system to provide a career ladder for early childhood educators:
    - Director: Like PEI, Manitoba requires directors to hold a post-diploma or degree credential.
    - ECE 3: Two-year ECE diploma plus post-diploma study
    - ECE 2: Two-year ECE diploma
    - Child Care Assistant: 40 hours of Early Childhood Education training.
- Requirement that two thirds of staff must have an ECE credential. All provinces except Ontario and the Territories require at least a minimal amount of training (ranging from 45 to 120 hours) to work with children in a centre. In Ontario, there are no training requirements for child care assistants and no training requirements for family home child care providers.
- Recruitment and Retention Strategies:
    - Manitoba Workplace Training Model is an accelerated apprenticeship program available to child care assistants who have been in the field for 2 years. They can then apply to enrol in early childhood education courses at the post-secondary level. The student goes to school 2 days a week and

continues to work in the child care centre for three days a week. The student does their practicum in their place of employment. The Manitoba government funds the centre for replacement staff while the student is in class. It is an extremely popular program and has resulted in a very high retention rate at the post-secondary level. In addition, staff are certified through the Competency-Based Assessment (CBA) process.

- Manitoba also actively attempts to recruit ECEs back to the profession by giving them a bonus of up to $3,000 in 2017.

The Manitoba experience demonstrates that without increases in staff wages (plus the provision of benefits) the capping of fees together with the provision of operating funding is insufficient to stabilize the sector, ensure sufficient qualified staff in the sector and guarantee quality.

7.9 SUMMARY

Different child care funding and management approaches are often discussed discretely as either/or arrangements. In fact, most jurisdictions choose a combination of tools which have been tailored to deliver the type of child care system they want. We can learn from how tools are combined to produce results in other jurisdictions.

England has a strong separation between education services for children 3-5 years and child care for younger children. There is substantial public funding (with activity requirements) for the provision of free services for children 3-5. There is a relatively stingy tax credit for younger children, where child care fees are high.

Australia has a relatively generous sliding scale for the use of approved child care services by children of families who meet activity requirements. Fees are high; Australia has imposed a fee cap for sliding scale assistance, but the fee cap is not binding.

New Zealand lowers child care fees with relatively generous supply-side funding. Its child care has an international reputation for quality, diversity and curriculum. Children 3 or 4 years of age are eligible for 20 hours per week of (nearly) free child care. For those who cannot afford the lowered fees, the Ministry of Social Development provides subsidies to low-income families with income and activity requirements.

Young children have a right to access to child care services in Denmark. Municipalities play a major role in policy and funding services. Supply-side funding keeps fees below 25% of the cost of the service, and there are additional subsidies available for low-income families.

Access to kindergartens (child care) in Norway is a statutory right from age one. Many centres are municipally operated and municipalities play a major role in implementing policy. Most funding is supply-side funding and the central government imposes a statutory fee cap on services. Parents pay about 15% of costs. About 90% of children 1-5 years-of-age attend child care.

Sweden has an integrated and largely universal child care system for children younger than school age, considered as a part of the education system. It is designed to support employment and study activities as well as providing play-based education for children at low or zero cost to parents. In Sweden, as in other Scandinavian countries, municipalities play a major role in determining and implementing policy and in funding and provision of services. Municipalities are responsible for ensuring that every child who wants services actually receives them. Parent fees are limited to no more than 3% of family income for the first child, another 2% for the second, and another 1% for the third.

Quebec has two funding schemes. Some families have access to reduced-fee services, either in a CPE, or family child care, or in a for-profit centre that is part of the reduced-fee services scheme. These families pay fees (2017) according to a sliding scale from $7.75 per day to $21.20 per day, based on family income. Other families attend services – licensed or unlicensed – that are not part of the reduced-fee scheme. They can receive financial assistance from a tax credit for child care expenses, where families earning less than $35,000 receive 75% reimbursement and other families receive less reimbursement according to family income.

Prince Edward Island has established a publicly-managed network of Early Years Centres and Infant Homes, where fees, staff wages, professional development and other aspects of services are regulated. Two-thirds of staff have to have a two-year ECE qualification or better.

Manitoba provides base funding to not-for-profit centres and family homes in order to lower fees to a legislated fee cap. Two-thirds of staff are required to have an ECE diploma.

CHAPTER 8: DIFFERENT FUNDING APPROACHES – THE EVIDENCE

Chapter Summary

- There are several alternative funding approaches – subsidy systems, universal sliding scales, free child care, flat parental fees, and tax credits for child care expenses; we combine these to form four discrete options: a $40K-$240K sliding scale, free preschool child care plus a $50K-$150K sliding scale, a flat fee of $20 per day per child plus a fully-funded amended subsidy system, and a tax credit for child care expenses.

- We use an Excel spreadsheet-based model to calculate the returns from employment under the four funding options as compared to the existing funding system; charts show the amount of additional spendable income available after child care fees as a percent of pre-tax earnings. In other words, the charts measure how much better off a family is as a result of the main caregiving parent's employment; we call this the Ontario Child Care Employment Returns Model (OCCER Model).

Lone Parent Families

- The existing Ontario subsidy system is important in lowering the barriers to employment for those lone parent families able to access subsidies; however, this financial assistance disappears above about $85,000. In general, if there were no child care costs, incentives to employment would be much stronger – child care is an important barrier to employment.

- For lone parent families, either of the sliding scales we are considering provides much stronger employment incentives than the existing subsidy system; additional spendable income after child care costs is higher at nearly all levels of income.

- The tax credit for child care expenses is negative for low-income lone parent families – they do much worse than with the subsidy system; above about $50,000, the tax credit improves employment returns, but not generally by as much as the sliding scale options.

- The $20 per day per child flat fee combined with a fully-funded subsidy system improves employment returns for many families compared to the current situation. However, between about $20,000 and $90,000, it does not boost employment returns by as much as the sliding scale funding models.

Two-Parent Families

- We model the returns to employment in a two-parent family with two children, where the potential cost of child care is $30,000 annually. We look at the increase in spendable income generated for a family when the main caregiving parent becomes employed (at different possible levels of earnings). In today's world, the main caregiving parent is still most often the mother in the family, so we will use the terms "she" and "her" to refer to the main caregiving parent.

- When this parent enters the labour force she gains employment income. But as her earned income rises, her family will be eligible for less Canada Child Benefit, less Ontario Child Benefit and she will have to pay income taxes, Canada Pension Plan payments and Employment Insurance payments. Her spouse will lose the value of the Spousal Credit, as a credit against his taxes. And, of course, she will face substantial fees for licensed child care. All of this reduces the percentage of her gross earnings that contributes to an increase in spendable income for the family, and affects the employment returns from taking a paid job.

- The returns to employment, if this family faces the full child care cost, are extraordinarily negative. If she cannot earn at least $60,000 per year, there is little financial reason to be employed.

- Subsidy improves these returns dramatically, but for a low earning main caregiving parent, she will only increase the family's spendable income by 20%-30% of her gross earnings. The Ontario child care subsidy system is less helpful to this two-parent family than to a lone-parent family, largely because this family is only eligible for partial subsidy.

- The tax credit performs poorly for this two-parent family – it is worse than the existing subsidy system for our two-parent family with two children unless the main caregiving parent earns $35,000 or more. And it provides lower employment incentives than other funding policies for other levels of her gross earnings.

- The $20 per day per child policy, combined with a well-funded subsidy system, improves employment returns for a two-parent family better than other policies if her gross earnings are over $55,000. However, for earnings below about $40,000, this policy fares much worse, only a modest improvement over the existing subsidy system.

- Both the $40K-$240K sliding scale, and the provision of free child care for children of preschool age combined with a $50K-$150K sliding scale for children of other ages, do quite well in increasing employment incentives (reducing barriers to employment) for the main caregiving parent in a two-parent family. The latter policy combination – free for preschool ages plus a sliding scale for other ages – is noticeably better than the $40K-$240K sliding scale when the main caregiving parent's income is quite low.

Child Care Demand and Employment Simulations

- Our Ontario Child Care Demand and Employment Simulation Model (OCCDES) provides statistical estimates of the effects of these alternative funding policies on child care demand, parental employment, family incomes, measured affordability of child care, net child care costs, and the overall costs and revenues to government;

- Simulations confirm that licensed child care is distinctly unaffordable right now for many families. Families with young children (0-4) now have to spend over 23% of their after-tax family income to access licensed child care services. That amounts to 2/3rds of the income contribution of the average main caregiving parent.

- The $40K-$240K sliding scale would transform the child care system into one that is affordable to virtually all families. Demand for all age categories of licensed child care increases dramatically in this simulation, more than doubling overall and rising to nearly six times its current level for infants. The average percent of family income that a family with children 0-4 would spend on licensed child care would now be 2.7%, and the average percent of the main caregiving parent's income contribution would be 9.5%.

- Making child care services free of charge for children from 2½-4 years of age would also have dramatic effects. This is combined with a $50K-$150K sliding scale for infants, toddlers and kindergarten children. Affordability is very substantially improved for families in all income categories, particularly lower-income families. On average, families with children 0-4 would now pay 2.7% of after-tax family income to access licensed child care services. There are substantial increases in the demand for infant and toddler child care, and an especially large increase in the demand for preschool care in this simulation. Overall demand would more than double.

- Lowering the full fee to $20 per day per child for infants, toddlers, preschoolers and kindergarten children is combined with the maintenance and expansion of the subsidy system to provide extra assistance to low-income families. This simulation substantially improves affordability – to 3.7% of after-tax family income on average for families with children 0-4. There are substantial increases in the demand for infant and toddler care and overall demand for licensed care more than doubles.

- The final simulation would adopt a new provincial tax credit for child care expenses. The existing Child Care Expense Deduction (federal and provincial) continues. We model this with a continuation of the existing subsidy system; without this the tax credit would have very negative effects for low-income families. Even so, this tax credit has effects on affordability that are notably less effective than for alternative funding policies. With this tax credit, families with children 0-4 would pay, on average, 7.8% of their after-tax family income to access licensed child care. Families with incomes below $50,000 would pay 8.0% of net incomes, families between $50,000 and $100,000 would pay 7.3% of income and families at $100,000 and above would pay out 6.0% of net family income. This pattern, in relation to family income, is opposite to those of alternative policies.

- Only two of these simulations are ones that we think should be considered seriously for implementation. Both the $40K-$240K sliding scale (Simulation C) and free child care for preschool children plus a $50K-$150K sliding scale (Simulation D) have very positive effects on affordability and desirable distributional effects in terms of income groups and lone parent/two parent affordability.

- There are, however, important problems of phase-in. There are not yet enough licensed spaces to meet all the demand that would be created. In the chapter on transitions, we discuss how these issues of transition affect our recommendation about the best new funding approach.

8.1 DIFFERENT FUNDING APPROACHES

We have discussed different child care funding tools in the chapter on the theory of different funding approaches, and in the chapter on child care policies in other jurisdictions. There are four funding tools that are widely used:

- sliding scales of fees, where the amount that families pay for child care depends on their income.
- provision of free child care services.
- flat fees – a fixed fee for everyone, independent of parental income.
- funding schemes in the form of a tax credit or tax deduction.

These funding tools can be used on their own or in combination. In this chapter, we evaluate the effects of four different combinations of policy reforms to improve affordability of child care in Ontario

A. Ontario could adopt a generous sliding scale of child care fees, where all families with earnings less than $40,000 pay nothing, all families with incomes above $240,000 pay 80% of the full cost of the child care they use, and in between, families pay an increasing percentage of the full fee as their income is higher.

B. Ontario, recognizing the popularity and developmental value of licensed child care for children of preschool age - between 2½ years of age and junior kindergarten – could provide child care free of charge to these children. We model a couple of alternative complementary schemes to improve affordability for children of other ages. One is what we call a $50K-$150K sliding scale, meaning that families with income below $50,000 pay nothing and families with income above $150,000 pay 80% of the full fee. Between these income levels, the percentage of the full fee payable increases gradually.

C. Ontario could cap licensed child care fees at a flat fee of $20 per day per child for infants, toddlers, preschoolers and kindergarten children. An expanded subsidy system (a form of sliding scale) would provide financial assistance to families that cannot afford $20 per day and families with children of other ages.

D. Kevin Milligan has recently recommended replacing the Child Care Expense Deduction with a tax credit for child care expenses similar to one currently available in Quebec. Ontario could adopt a version of his federally-oriented plan, with a demand-side sliding scale in the form of an Ontario child care expenses credit. Families would be reimbursed with 75% of the child care fees paid by families with low incomes, tapering off to 26% at high incomes.

In this chapter, we use numerical and statistical methods to determine what the effects of these different policy reforms would be. We are interested in comparing how different families would be affected by each of these different policy directions. We are interested in the effects on parental incomes, the change in net child care fees for families, the changes in measured affordability, the effects on family decisions to use licensed child care, and the effects on labour force participation of parents. And, of course, we are interested in what the net cost to the Ontario government of each policy alternative would be.

This chapter will present and summarize evidence from our investigation into the effects of these alternative child care funding reforms.

We have used two different approaches to assessing these funding alternatives.

1. Using an Excel-type spreadsheet-based model, we have modelled the tax and benefit system facing Ontario families at different possible income levels.[16] To this, we have added the child care funding system proposed by each of these funding alternatives.

[16] Appendix D summarizes the tax and benefit rules that apply to families with young children in Ontario.

This allows us to produce mappings – charts – which show how taxes, benefits and child care expenses combine to affect the percent of gross income that ends up being available to each family as spendable income (after child care fees). Different child care funding policies will leave families with different amounts of spendable income. In other words, these charts will show us how the different policies we are considering will affect the returns parents get from employment. Child care is a barrier to employment when it dramatically reduces the returns from paid work. An affordability policy is good when it substantially improves the returns from employment. We call this model the Ontario Child Care Employment Returns Model (OCCER model). It is in the spirit of work done by Immervoll and Barber (2005) and Richardson (2012).

This first approach does not require detailed information about Ontario families (e.g., how many are rich or poor, how many and what ages of children, etc.). The calculations are based on the situations faced by hypothetical families at different income levels.

2. We have also built a second model – a child care policy simulation model - which relies on very detailed data about Ontario families, their income, educational, immigrant, marital and child characteristics. This model, resident in the Research Data Centre at the University of Toronto, uses data on Ontario families with children 0-6 years of age from the National Household Survey of 2011[17]. At its heart, this model uses statistical analysis to forecast the child care and employment decisions of parents. These decisions are affected by a wide range of family characteristics as well as by policies that affect either parent incomes or the net fee that families must pay for licensed child care. We will discuss some details of this simulation model in the second section of this chapter. We call this the Ontario Child Care Demand and Employment Simulation Model (OCCDES Model).

8.2 MODEL #1 (SPREADSHEET MODEL) – RETURNS TO EMPLOYMENT

8.2.1 Lone Parent Families

Parents have little incentive to work or use child care if most of their earnings disappear in taxes and child care costs. This section quantifies the income gain parents will get from participation in employment when employment requires the payment of substantial child care fees. We assess the effects of child care costs on family resources by looking at the percentage

[17] This model could be updated when 2016 Census data is available.

of income parents have available after a transition into employment. These incomes are disposable or take-home incomes (we call it "spendable" income) measured after child care costs and after all income taxes, after the payment to the family of all child benefits, and after payroll taxes such as Employment Insurance contributions and Canada Pension Plan contributions are deducted from gross earnings.

Charts 3 through 6 describe the situation faced by a lone parent family living in Ontario. This family has one child aged 2 (a toddler) and full child care fees are assumed to be $17,000 per year. When the lone parent enters the labour force, she gains employment income. But as her earned income rises, she will be eligible for less Canada Child Benefit, less Ontario Child Benefit and will have to pay income taxes, Canada Pension Plan payments and Employment Insurance payments.[18] And, of course, she may face substantial fees for licensed child care. The chart calculates her increase in spendable income when she goes out to work in paid employment. This increase in spendable income is shown as a percentage of her gross earnings (her annual pay before taxes), and we can interpret it as her returns from employment – the percent of her extra income she has available to spend after taxes and child care costs.

Have a look at the chart labelled "Returns from Employment After Child Care: With and Without Child Care Costs, With and Without Subsidy - Lone Parents." It has three lines on it. Each reflects the situation of a single parent family with a child aged 2. For two of the lines, she has annual child care fees of $17,000. For comparison, the other line shows her situation with no child care costs. Each of these lines measures the contribution made to her spendable income from being employed; the amount of additional income she would have to spend is expressed as a percentage of her gross earnings (i.e., her earnings before taxes and child care costs). The higher the percentage she gets to keep, the lower are the effective barriers to employment for lone parents. The lower the percentage, the higher these barriers are.

Start with the top line – the blue line with round-shaped markers; this shows the impact of the tax and benefit systems on take-home income of a single parent family when there are no child care costs. In other words, this line gets rid of child care costs and shows us how much her earnings are affected by taxes and benefits without considering child care costs.

The tax and benefit system is designed to provide strong employment incentives, especially at lower levels of earnings. As you can see, when employment earnings are very low, a single parent's job will increase disposable income by more than 100% of gross employment earnings (up to about $15,000 of earnings). Up to $45,000, the combination of taxes and benefits still

[18] Low-income lone parents could also be eligible for social assistance (Ontario Works) payments and might lose some or all of these at higher levels of income. Ontario Works has special arrangements for child care assistance. We do not consider the effects of social assistance.

leaves this lone parent family with over 80% of her gross employment earnings. A large percentage of lone parent families have incomes below this level. Even beyond $45,000, lone parent families get to keep over 70% of gross employment earnings up to about $110,000. In other words, if there are no child care costs, the tax and benefit systems are designed to minimize barriers to labour force participation for single parents.

The lowest line on the chart, the purple-coloured line with triangle markers, indicates by how much spendable income (i.e., after child care expenses) rises as a lone parent family enters the labour force if she had $17,000 of child care costs but could not access the current child care subsidy system. This chart measures the net income contribution of employment as a percent of the gross employment earnings of the lone parent. At low levels of earnings, the net contribution from employment is negative, or only a small percentage of gross earnings. Out to $65,000 of gross earnings, she gets to keep less than 50% of her income; there is little incentive to be employed if this lone parent has to pay full child care costs.

The middle line, the red one with the square markers, is the “subsidy” line. It shows the percent of gross earnings from which this family would benefit if in receipt of child care subsidy at different levels of annual gross employment earnings. The existing child care subsidy system goes a long way to restore the employment incentives built into the tax and benefit system for low-income lone parents (if they are able to access subsidies). The existing subsidy system reduces child care expenses to zero for families earning $20,000 or less. Up to this point, the line with squares lies directly on top of the one with round markers. Up to $40,000, annual child care expenses remain modest (below $2,000), so, at these income levels, a lone parent family’s spendable income is still at or close to 80% of gross employment earnings. Beyond $40,000, child care subsidy coverage diminishes rapidly, so that at $70,000 of gross employment earnings, the lone parent’s spendable income is only about 60% of gross employment earnings. Beyond $90,000 of employment earnings, there is no assistance provided by the subsidy system (for this particular family situation).

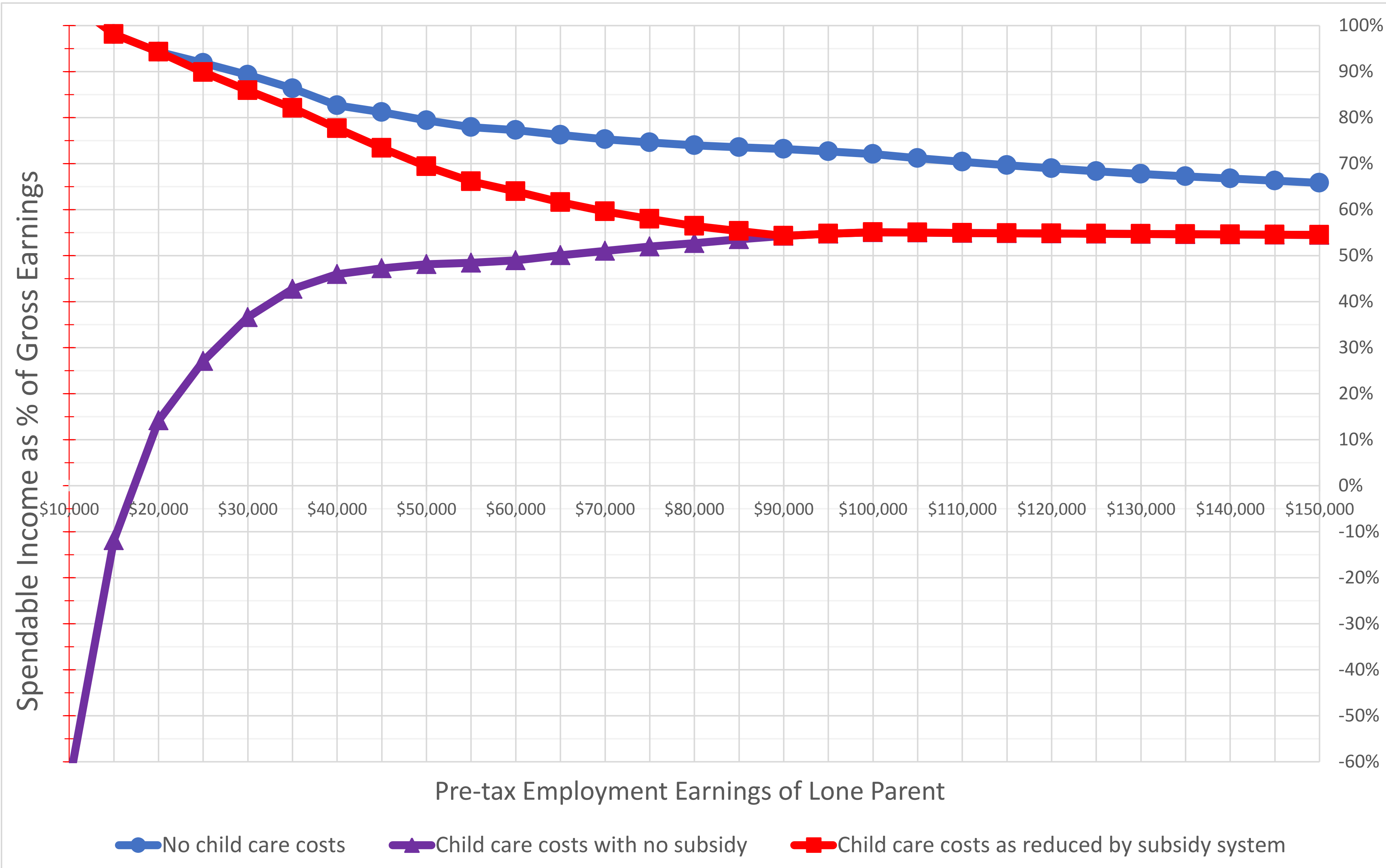
What can we learn from this chart? Mostly, that the subsidy system matters. Without subsidies, lone parents have very little incentive to be employed. With subsidy, low-earning single parents get to keep the large majority of their earnings, while receiving lower-cost child care. Because of financial constraints and space shortages, subsidies have not always been available to those families eligible to receive them; this chart shows the effect of subsidies on those able to access them.

In sum, the tax and benefit system is designed to provide strong employment incentives for lone parents (to reduce barriers to workforce entry), but child care costs can dramatically reduce the potential returns from employment. In fact, without a subsidy system, there would be either negative or very modest incentives for lone parents to seek employment[19]. The chart gives us a strong visual representation of the importance of the child care subsidy system for lower-earning lone parents (those able to earn up to about $40,000 annually). For lone parent families in this income range, the subsidy system largely restores employment incentives (income returns from work). For those families who receive a child care subsidy, employment incentives diminish substantially and rapidly above $40,000 of annual earnings. However, out to about $85,000 of gross earnings, the subsidy system provides much stronger employment incentives than if this lone parent had to pay the unsubsidized cost of child care.

[19] In this discussion, we ignore the employment disincentives created by social assistance. These employment disincentives are well known. We focus instead on employment barriers that are created by child care costs. It is possible to use the OCCER model to look at social assistance and child care issues together.

Chart 3

Returns from Employment After Child Care: With and Without Child Care Costs, With and Without Subsidy - Lone Parents



8.3 ALTERNATIVE FUNDING MODELS

On the following pages, we present three charts that describe the effects of the alternative funding proposals described at the beginning of this chapter. Putting all of the lines on one chart makes the results difficult to read, so we show the results in three charts (and draw conclusions in the accompanying text).

The first of these charts looks at two alternative sliding scales that deliver more favourable results than the current subsidy system. Each would affect the employment returns (spendable income after child care costs) for single parents. Our benchmark is the existing subsidy system (for those able to access a subsidy). This subsidy reference line is the red line shown with squares on it. This shows the impact of the current subsidy system on net earnings - the percentage of gross earnings by which this single parent is better off than she would be without employment. This line repeats the child care subsidy line from the previous chart.

There are two other lines on this chart. The first is a sliding scale where families earning less than $40,000 pay nothing and the percentage of the full-fee paid increases gradually until $240,000 of income (a $40K-$240K sliding scale). At $240,000 of income or above, a family would pay 80% of the full-fee, shown by the orange or rust-coloured line with triangle markers.

An alternative sliding scale (one that could be combined with free child care for preschool children) can be described as $50K-$150K. Families earning less than $50,000 would pay nothing, families earning over $150,000 would pay 80% of the full fee. Between these two income levels, the percent payable would rise smoothly from 0% to 80%. This is shown as a black line with square markers.

Either of these sliding scales leaves more spendable income in the hands of a lone parent family; barriers to labour force participation are reduced compared to the current situation with child care subsidy. Either of the sliding scales is positive for any lone parents earning above $20,000 and has identical coverage for those earning less than $20,000. Above about $70,000 of income for a lone parent, the $40K-$240K sliding scale is somewhat more generous than the $50K-$150K sliding scale.

The second chart in this group shows the subsidy line again, for reference, along with two new lines. The subsidy line is red with square markers. The yellow line with round markers represents the combination of a fixed fee of $20 per day per child along with keeping the existing subsidy system for lower-income families. As you can see, out to about $50,000, this funding plan treats lone parents in the same way as the current subsidy system – they are neither better nor worse off. Beyond $50,000 of gross income, the lone parent gets to keep about 67% of gross earnings, falling to about 62% as income rises towards $150,000. This is considerably more rewarding than the current subsidy system.

The green line, with diamond-shaped markers, represents the effects on lone parents of the tax credit for child care expenses described at the beginning of this chapter. As you can see, out to about $50,000 of income, this funding proposal would be worse than the current subsidy system at providing employment incentives for lone parents. Beyond this income level, the tax credit leaves more spendable income in lone parent hands than the current subsidy system, and parallels the effects of the $20 per day alternative. Beyond $135,000 of income, the income support from this tax credit diminishes.

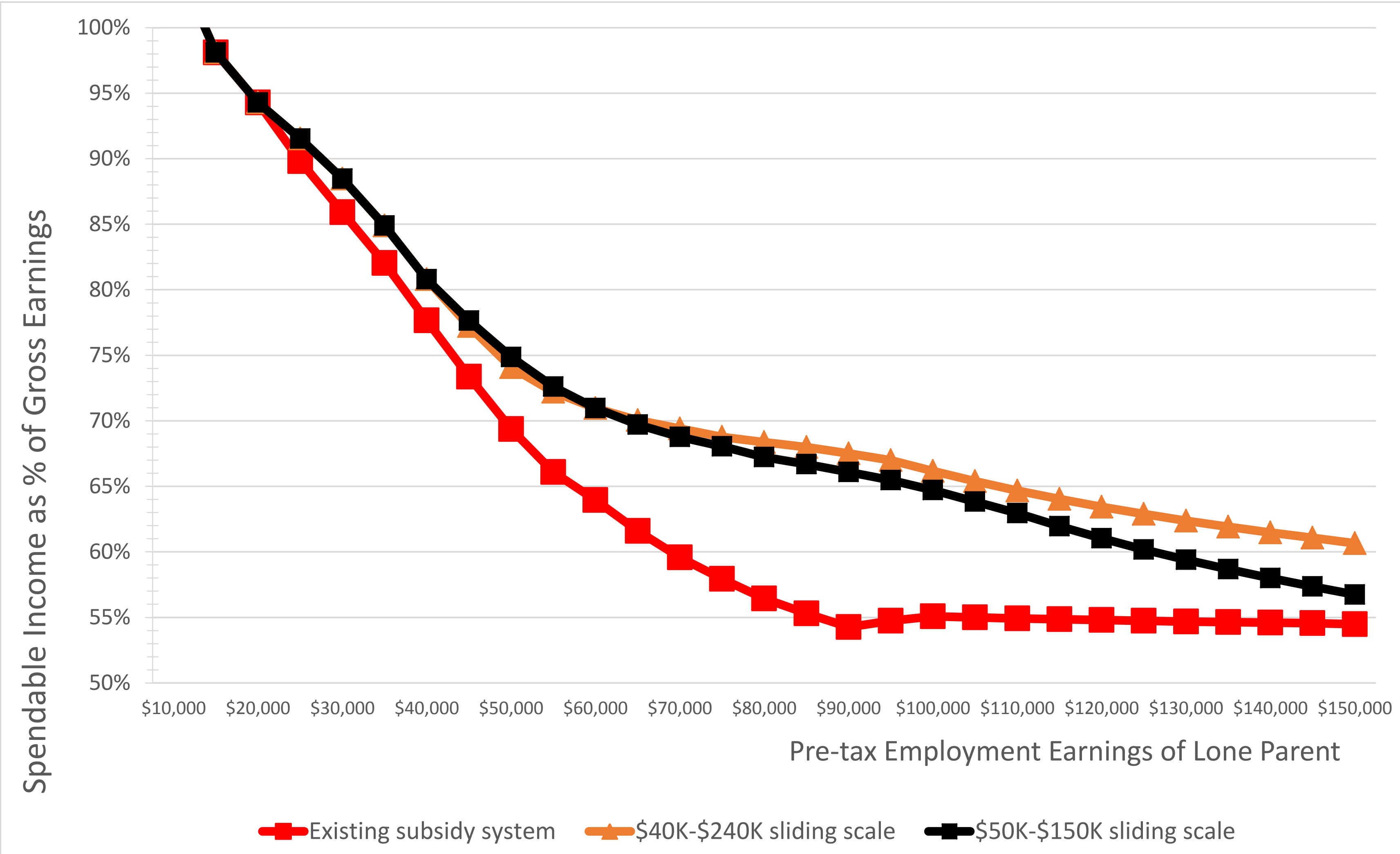
Even though it makes for a potentially confusing chart, it is useful to put all of these lines on a single chart so they can all be compared. That is what the next chart does. The red line with square markers represents the effects on spendable income of the current subsidy system for a lone parent with $17,000 of child care costs. The black line with square markers represents the effects on spendable income of the $50K-$150K sliding scale. The rust-coloured line with triangle markers represents the effects of the $40K-$240K sliding scale. The yellow line, with round markers, represents the effects on spendable income of the $20 per day fixed fee combined with additional assistance for low-income families. The green line, with diamond-shaped markers reflects the percent of gross income left in lone parent hands with a tax credit for child care expenses (replacing the existing subsidy system).

Summarizing what we see on the chart, the tax credit creates significantly higher employment barriers for lower-earning single parent families than does the existing subsidy system. If the single parent earns gross income below $50,000, she would have more income left to her by the subsidy system than by the tax credit.

Beyond $50,000 or $55,000, both the $20 per day and tax credit approach provide more of a boost in spendable income than the current subsidy system. However, out to $90,000, either one of the sliding scales is considerably more generous than either $20 per day or the tax credit. It is worth recalling that according to the 2016 Census, about 85% of lone parent families with children 0-5 in Ontario had gross incomes below $60,000.

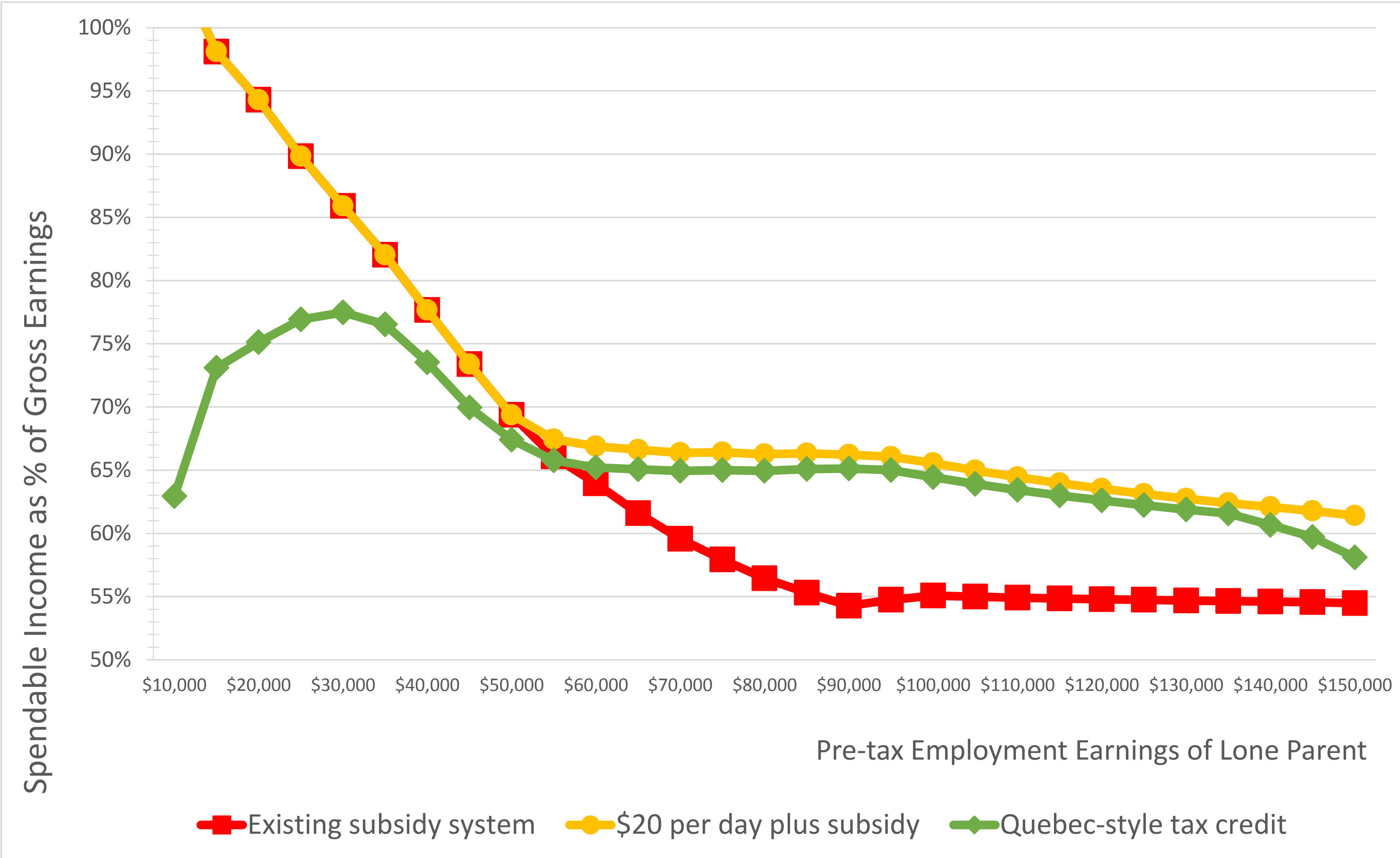
Either one of the sliding scales provides stronger employment incentives for lone parents than the current subsidy scheme. This is true at low levels of income compared to the existing subsidy system and relative to competing policies out to about $100,000 of gross earnings. With this type of sliding scale of payments, the large majority of lone parents would have spendable income (i.e., after taxes and child care costs) equal to more than 65% or more of their gross employment earnings. Relative to the existing subsidy system, either one of the sliding scales would substantially reduce employment barriers for lone parents able to earn $20,000 or more (and would reduce employment barriers equally for those earning less than $20,000).

Chart 4



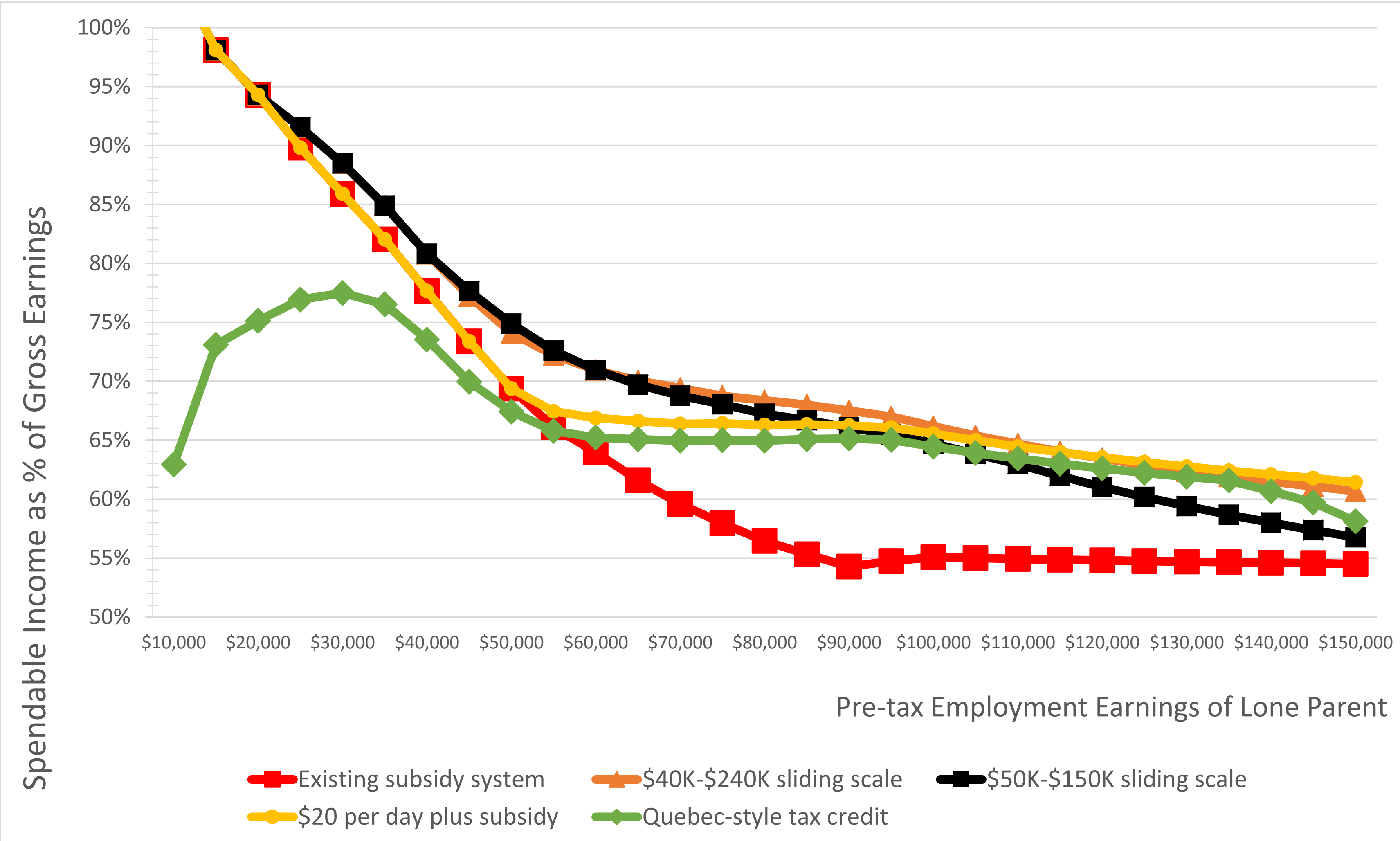
Returns from Employment After Child Care with Alternative Sliding Scales - Lone Parents

Chart 5



Returns from Employment with $20 Per Day and Tax Credit Policies- Lone Parents

Chart 6



Returns from Employment After Child Care With Alternative Possible Child Care Policies - Lone Parents

What do we conclude from these charts? First that the existing subsidy system is very important at reducing barriers to employment for those lone-parent families that are able to access it and who earn less than about $40,000. Above that income, either the $40K-$240K sliding scale of fees or the $50K-$150K sliding scale provide strong employment incentives and strongly reduced net costs of child care. The credit for child care expenses is inadequate in providing employment incentives for lower-income lone parents. The $20 per day funding policy (combined with well-funded subsidies) matches the effects of the existing subsidy system out to about $50,000 of lone-parent earnings, but is less generous than the sliding scale policies above this, until income reaches levels that are quite high.

8.3.1 Two Parent Families

We have also produced a set of charts – Charts 7 through 10 - detailing the situation of a hypothetical two-parent family. One parent is employed earning a gross annual wage of $40,000 per year. The family has two children – one two years of age and one three years of age – a toddler and a preschooler. If the other parent – the main caregiving parent - is employed, the family will use licensed child care costing $30,000 for the two children. In today's world, the main caregiving parent is still most often the mother in the family, so we will use the terms "she" and "her" to refer to the main caregiving parent (Kleven, Landais and Sogaard, 2018). The charts below show the family situation at different levels of her gross earnings – pre-tax earnings. She might earn anything between $10,000 and $150,000 to add to her partner's income.

She would like to know how much of her gross earnings she will have available to spend after deciding to take up paid employment – her returns from employment. The returns from employment is a measure of her incentive to be employed, or, looked at another way, the amount she does not get to keep is a measure of the barriers to entering the labour force. The higher the percentage of income she gets to keep, the more worthwhile employment is. The more income goes to taxes and child care, the bigger the barriers to employment.

The chart measures, at each possible level of her gross earnings, how much additional spendable income her family will have, compared to the situation when she is not employed. Spendable income is what she has left after taxes, benefits and the net cost of child care have been taken into account. Her family's additional spendable income when she is employed is expressed as a percentage of her gross earnings, so it measures the percentage of her gross income that is left to her family as additional spendable income.

When this parent enters the labour force she gains employment income. But as her earned income rises, her family will be eligible for less Canada Child Benefit, less Ontario Child Benefit and she will have to pay income taxes, Canada Pension Plan payments and Employment Insurance payments. Her spouse will lose the value of the Spousal Credit, as a credit against his taxes. And, of course, she will face substantial fees for licensed child care. All of this reduces the percentage of her gross earnings that contributes to an increase in spendable income for the family, and affects the employment returns from taking a paid job.

Chart 7 replicates the situation modelled in Chart 3, except now for a two-parent family. Amongst other things, it shows the situation if the family somehow has no child care costs (the blue line with round markers). Taxes and benefits reduce the increase in the family's spendable income, so the increase in spendable income is between 50%-60% of her gross earnings.

The red line, with square markers, shows the family's situation if she is able to get an Ontario child care subsidy. Her children do not receive a full subsidy, even when her earnings are low, because her husband already earns $40,000. So, child care subsidy is helpful, but the family still has a significant child care cost burden, reducing spendable income. At low levels of her earnings, the increase in spendable income is just over 20% of gross earnings. From $25,000 on, spendable income increases by between 30%-40% of her gross annual earnings. Even with a child care subsidy, there is not a substantial employment incentive.

The situation of this family if there are $30,000 of child care costs, but no child care subsidy is available, is, of course, much worse. This is shown by the purple line with triangle markers. When the potential earnings of the mother are low, it makes little sense to seek employment. Below about $45,000[20] of earnings, her decision to work would reduce family spendable income instead of increasing it; the child care costs are greater than her after-tax contribution to household income. On the chart, her employment returns peak at 39% at $150,000 of income – a relatively modest increase for what appears to be a substantial level of earnings.

Chart 8 shows how alternative funding policies could affect this family's returns from employment of the main caregiving parent. The effects of the existing subsidy system are again shown as the red line with square markers. As mentioned for Chart 7, the subsidy system leaves employment returns low for this two-parent family. However, the other two funding policies modelled boost employment returns up to just about 50% or above – a very substantial improvement compared to the existing subsidy system. The black line with square markers shows the impact on this family of making preschool-aged child care free and a $50K-$150K sliding scale for other ages of children. Across income levels, the net return from employment is pretty constant at about 50% of gross earnings, certainly much better than the returns if there is no child care subsidy, and much better than the coverage given by the current subsidy

[20] This result depends on the cost of child care, but the pattern is the same at other levels of child care costs. If total child care costs for two children were, somehow, only $15,000 per year, then if her earnings were less than $20,000, her decision to work would be reducing family spendable income. And her employment return would not get above 40% of her gross earnings until she was earning about $70,000 per year.

system. The rust-coloured line on Chart 8 shows the effect of the $40K-$240K sliding scale. This policy reduces employment barriers compared to the existing subsidy system, but not quite as much, compared to free preschool plus the $50K-$150K sliding scale, for two-parent families with the main caregiving parent earning less than about $30,000.

Chart 9 shows two different funding policies compared to the effects of the current subsidy system. The yellow line, with round markers, shows the policy of capping fees at $20 per day per child, combined with the existing subsidy system. As with lone parents, this policy is not as good at reducing employment barriers for lower-income families. When the main caregiving parent in the two-parent family earns less than about $50,000, the $20 a day policy generates employment returns that are between 20% - 50%, which is lower than the sliding scale policies modelled on the previous chart. Beyond $50,000 of earnings, the $20 per day policy enhances employment returns to about 55%.

Chart 7

Returns from Employment After Child Care: With and Without Child Care Costs, With and Without Subsidy - Two Parent, Two Child Family

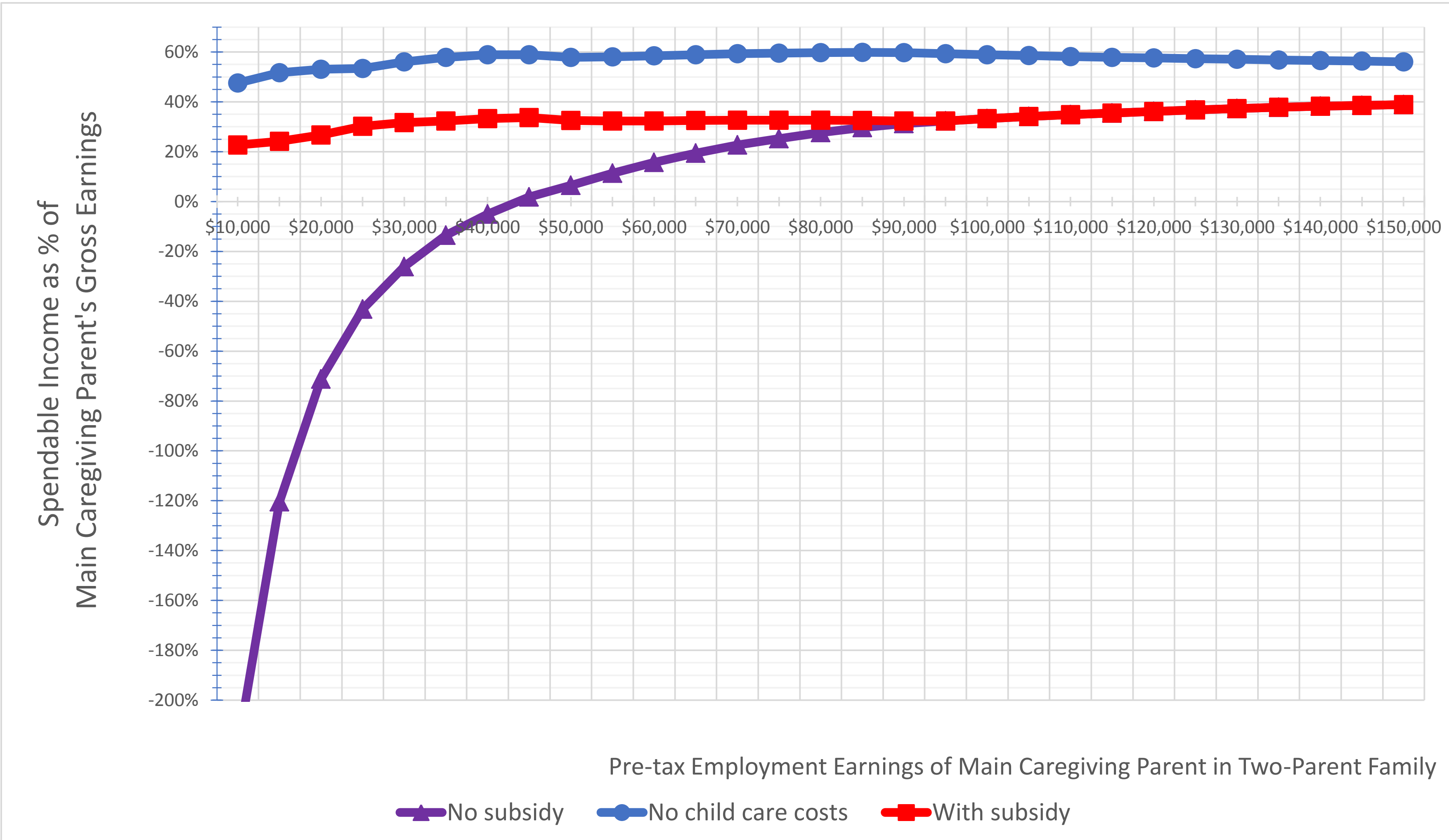


Chart 8

Returns from Employment After Child Care: Sliding Scales and Free Child Care Options - Two Parent, Two Child Family

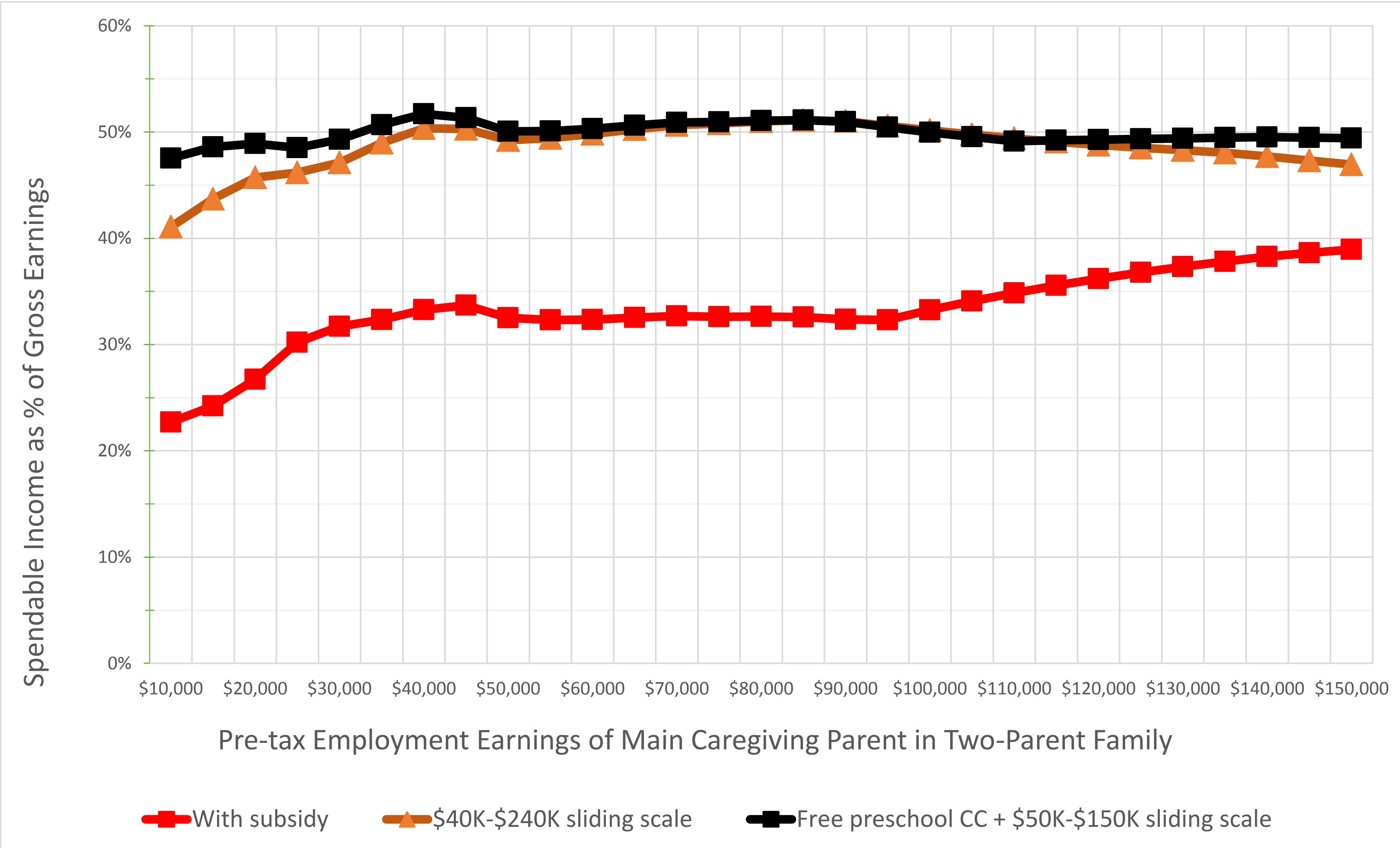


Chart 9

Returns from Employment After Child Care: $20 per day and Tax Credit Policies - Two Parent, Two Child Family

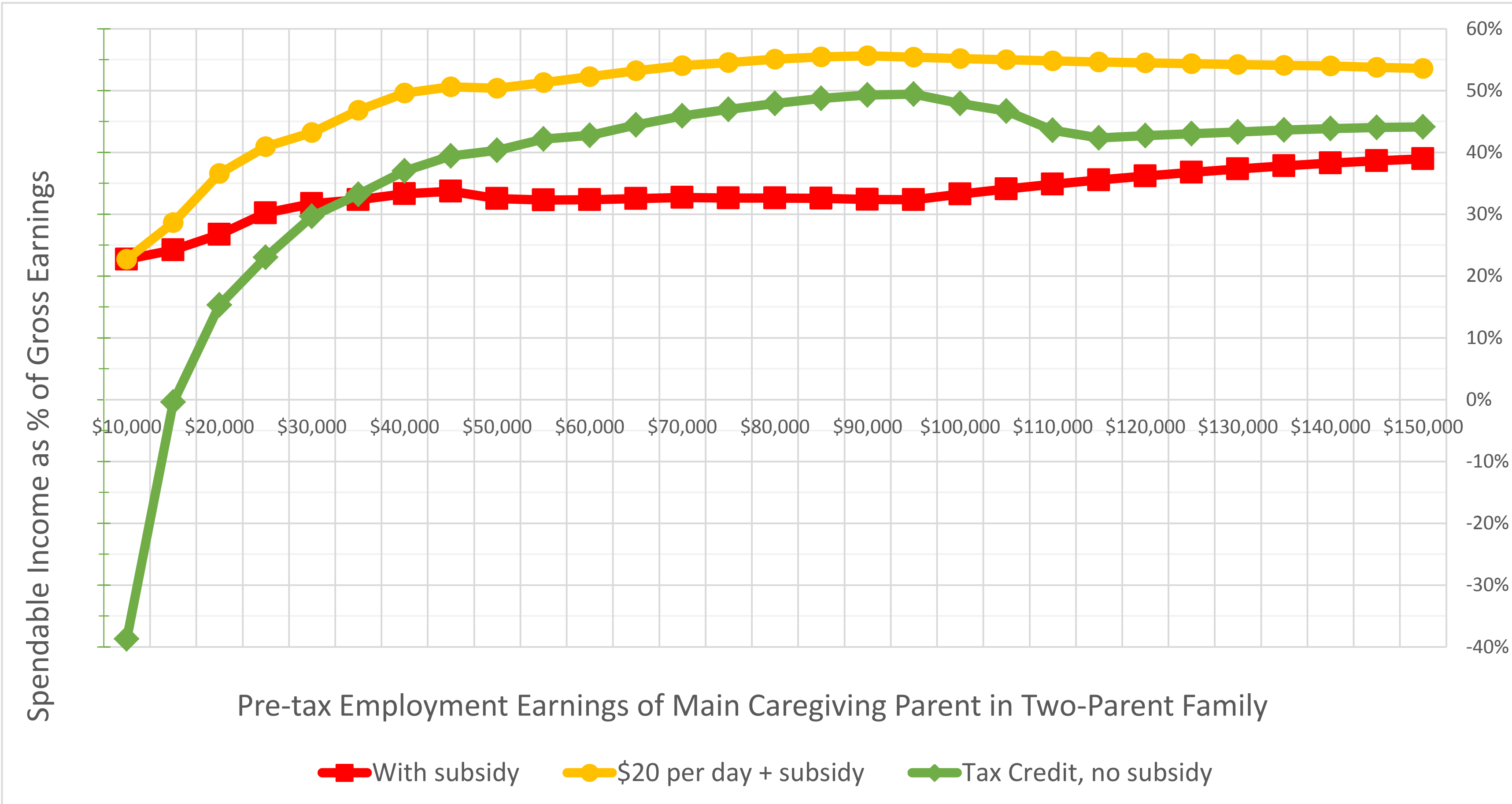
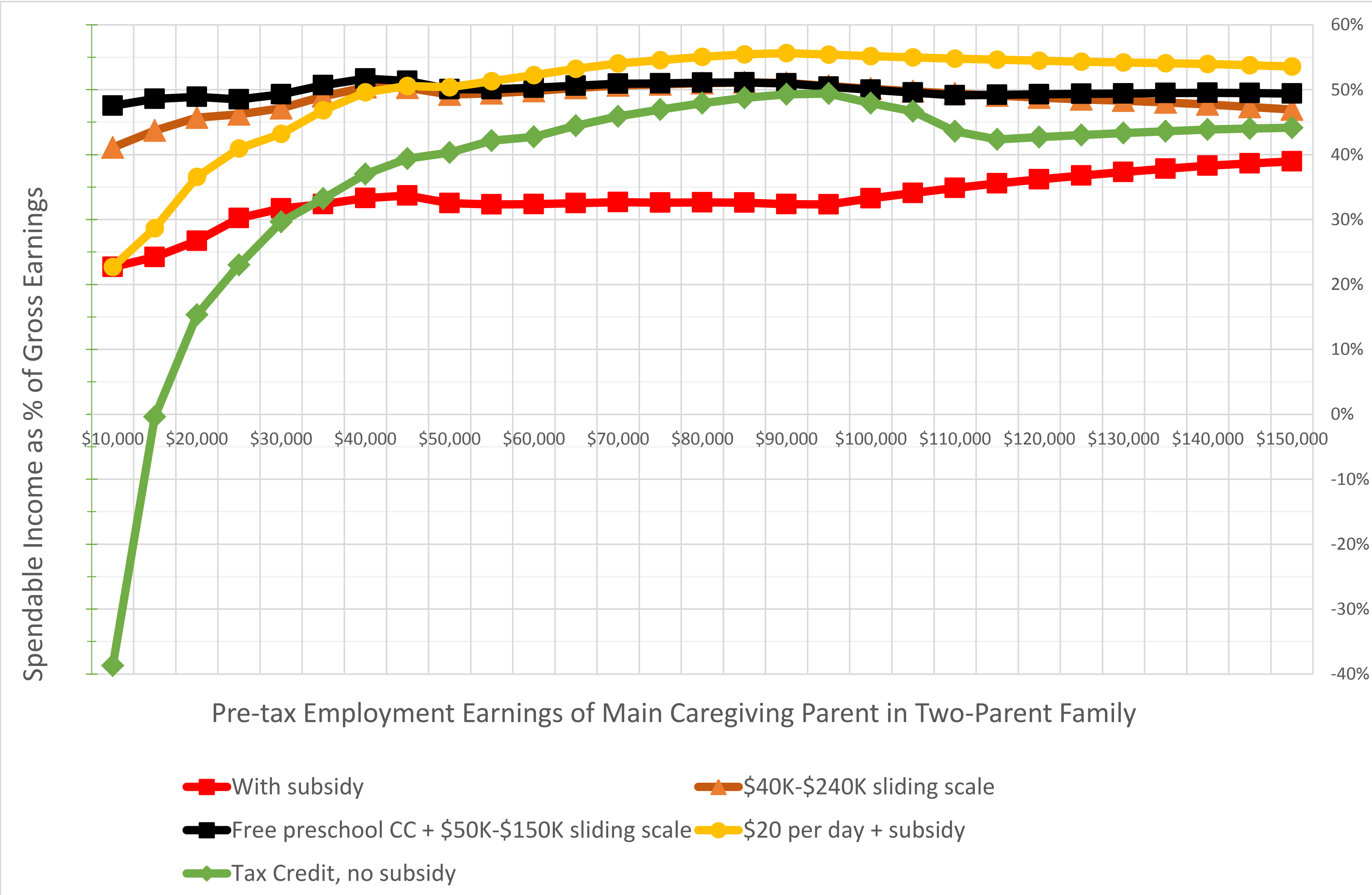


Chart 10



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Spendable Income as % of Gross Earnings
Pre-tax Employment Earnings of Main Caregiving Parent in Two-Parent Family
With subsidy
$40K-$240K sliding scale
Free preschool CC + $50K-$150K sliding scale
$20 per day + subsidy
Tax Credit, no subsidy

Returns from Employment After Child Care With Alternative Possible Child Care Policies - Two Parent, Two Child Family

The other line on chart 9 – the green one with diamond-shaped markers – represents the effects of a tax credit which replaces the existing subsidy system as a demand-side sliding scale. Up to about $35,000 of earnings for the main caregiving parent, this policy generates worse employment returns than even the existing subsidy system – below about 30% of her gross earnings. Under these circumstances, the incentives to be employed with two children are very small. Beyond $35,000, the tax credit delivers employment returns better than the current subsidy system, but only reaches 50% at about $90,000 of her earnings (i.e., $130,000 of family gross income, because we have assumed her partner earns $40,000). Beyond about $135,000 of family income, this tax credit has a region of poor employment incentives because child care assistance drops dramatically over a $20,000 income range (from about $135,000 to $155,000).

Chart 10 is difficult to read, but very useful because it compares all four of our funding policy alternatives to the effects of the current subsidy system. What we can see is that the current child care subsidy system (the red line with square markers) does not shelter this two-parent family very well from the negative effects of child care fees on the spendable income generated by employment. By working, this parent only increases the family's spendable income by between 20% - 40% of her gross earnings. So, for instance, if she decided to return to work for a $60,000 salary, the family's spendable income (after taxes, benefits and child care costs) would be less than $20,000 higher than when she stayed at home. That's not much incentive to return to work – a significant barrier to employment.

Which of the four alternative funding policies does the best job of enhancing these employment incentives? The clear loser in this competition is the tax credit. It reduces employment incentives relative to the existing subsidy system for parental earnings less than about $35,000 and it is not better at restoring employment returns at any other level of income. The $20 per day plus subsidy plan is better than other funding reforms at enhancing employment returns above about $55,000 (i.e., family gross income of about $95,000). However, it does a poor job for the many main caregiving parents whose earnings are low. Either one of the funding policies with a sliding scale does a good job across the income range at enhancing employment returns. However, at quite low levels of earnings, the policy that provides free child care for children of preschool age and a $50K-$150K sliding scale is noticeably better.

8.4 MODEL #2 (BEHAVIOURAL MODEL) – DEMAND FOR CHILD CARE, EMPLOYMENT, AND OTHER IMPACTS

Our Ontario Child Care Demand and Employment Simulation Model (OCCDES) models the employment decision made by the main caregiving parent in the family. This is the parent whose employment decision will trigger the demand for child care arrangements. The main caregiving parent[21] is presumed to make linked decisions about the amount of employment she will seek (full-time, part-time or not currently employed) and simultaneously about the type of child care she will use for her children who are younger than compulsory school age (typically 0-6 years). Because it models the changes in child care and employment decisions that will be made as funding of child care changes, it is called a "behavioural model".

The types of child care available are grouped into three categories: licensed care, unlicensed or unregulated care by a non-relative, and care by parents or relatives of the child. If the main caregiving parent is not currently employed, it is assumed that she provides primary child care for the child. As a result, our model seeks to estimate the factors that lead the main caregiving parent to choose from seven possible combinations of employment and child care:

1. full-time employed and using licensed child care,
2. full-time employed and using unregulated paid care by a non-relative,
3. full-time employed and care provided by parents or relatives,
4. part-time employed and using licensed child care,
5. part-time employed and using unregulated paid care by a non-relative,
6. part-time employed and using care provided by parents or relatives, and finally,
7. the main caregiving parent is not currently employed and provides the primary care for the child.

Each of these alternatives represents a quite different strategy for managing life with young children (Stalker and Ornstein, 2013). Some strategies use more money, but then that money needs to be earned. Some strategies use substantial amounts of parent or relative time to provide child care, but this is combined with the earning of income (and the dramatic reduction of any other uses of parental time). Some strategies use parental time, and forego earned

[21] The main caregiving parent is most frequently the mother, but may be a sole parent father or one member of a gay male two-parent family.

income. Because these alternatives represent different strategies of caring for young children, decisions about using these alternatives are differentially affected by different factors.

8.4.1 Main Determinants of Child Care Demand and Employment

The key factors that are incorporated in the simulation model are:

1. The net (after-tax, after-benefit) price the family has to pay for all children younger than compulsory school age in the family,
2. The net (after-tax, after-benefit) expected employment earnings of the main caregiving parent,
3. The net (after-tax, after-benefit) other income in the family (principally the spouse's income but also including a number of government benefits for either sole parent or two parent families),
4. The presence in the family of infants, of toddlers, of preschool-aged children,
5. The number of siblings 0-9 years of age in the family,
6. Whether the principal caregiving parent has a post-secondary education or not,
7. Whether the principal caregiving parent is a sole parent or not,
8. Whether the main caregiving parent is Canadian-born or a recent immigrant (and how recent).

Each of these factors is expected to affect differentially the decisions families make about child care and employment strategies. For instance, families with larger numbers of children are more likely to decide to not be employed (unless subsidy is available). Families who have very recently immigrated to Canada are less likely to be employed than families who immigrated a while ago, or families in which the caregiving parent is Canadian-born. Families in which the main caregiving parent has a post-secondary education are more likely to use licensed child care and be employed. And so on.

Many of these variables have more than one path of influence on the child care and employment decisions of families. For instance, having an infant child will increase the price that families would have to pay to use licensed care, but many parents also have strong feelings about what types of care are most appropriate for very young children. The variable listed above "presence of infants" will pick up the second of these effects; the price of child care will pick up the first.

The model includes statistical estimates of the responsiveness of child care and employment decisions to each of these factors.[22] For modelling policy, responsiveness to the price of licensed child care is often particularly important. Our statistical estimates find that child care and employment behaviour is quite sensitive to price changes. This is an important driver in the simulations discussed below.

Elasticity is a concept that measures the percentage change in one thing for a one unit change in another thing. We find that the elasticity of licensed child care demand to the price of licensed child care is -1.30 – in other words, we expect that when child care price falls by 10%, child care demand will rise by 13.0%.

As for employment, we find that a 10% rise in licensed care prices would be associated with approximately a 5.2% fall in full-time employment of main caregiving parents. Or, that a 10% cut to licensed child care fees, would be associated with a 5.2% rise in full time employment.

This refers to full-time employment. Some of this movement into full-time employment comes from parents entering the labour force. But some is based on a movement from part-time employment. As a result, total employment is predicted to rise by about 2.3% when child care fees are cut by 10%.

8.4.2 Results from Simulations

The tables below – an entire group of tables – shows the results of simulations on the different funding approaches outlined at the beginning of this chapter. We also model the current funding situation, known as the Base Case. And, we model the potential effects of the existing subsidy system if all funding and space limitations and stigma were removed.

The first simulation (Simulation A) is the Base Case. Information on the current child care and subsidy situations has been used to make this simulation represent current reality of child care demand and employment decisions in Ontario. It is most appropriate to interpret other simulations as an alternative to or a change from this Base Case. The Base Case reflects the current child care subsidy system as it is. The current subsidy system is quite restrictive in certain ways. Families may be eligible for subsidy but not able to access payments because of government financial limitations. Alternatively, money may be available, but child care centres in the local area do not have spaces available for the age and number of children needed.

The second simulation (Simulation B) maintains existing subsidy eligibility rules but assumes there are no financial or space limitations on the access to child care subsidies. In

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[22] The technical details of this type of model are described in Cleveland, Krashinsky, Colley and Avery-Nunez, 2016b.

other words, any family earning less than $20,000 who wishes to be employed and use licensed child care will pay nothing for child care. Above that, and up to $40,000, a family would pay 10% of the extra income. Above that a family will pay 30% of additional income earned until they earn a high enough income that they are no longer subsidized. That means a family would pay $0 at $20,000 of family income, $2,000 at $40,000 of family income, up to $8,000 at $60,000 of income, up to $14,000 at $80,000 of income and up to $20,000 at $100,000 of income. So, if a family was using infant care that cost more than $20,000 or if the sum of the full-fees for an infant and toddler was more than $20,000, the family could still get a modest amount of financial assistance at $100,000 of income. But most families getting any substantial amount of financial assistance would have incomes below about $80,000.

The third simulation (Simulation C) models a sliding scale, but one that is different both in generosity and in design from the existing subsidy system (which is also a form of sliding scale). We call this new sliding scale the $40K-$240K sliding scale. With the subsidy system, the amount of your income determines directly the total child care fee you have to pay. With this alternative type of sliding scale, your income determines what fraction of the full child care fee charged by the child care service you have to pay. All families with earnings less than $40,000 pay nothing, all families above $240,000 pay 80% of the full cost of the child care they use, and in between, families pay an increasing percentage of the full fee as their income is higher. So, for instance, a family earning $60,000 would pay 16% of the full fee; a family earning $100,000 would pay 32% of the full fee; a family earning $140,000 would pay 48% of the full fee and so on. The amount a family pays depends both on what their family income is, and on the number and ages of their children. Their income determines the percent and the number and ages of children determine how much the full fee is.

The fourth simulation (Simulation D) models making licensed child care free of charge for all children between 2½ years of age and kindergarten – free child care for preschoolers. This is combined with a sliding scale for other children in the family. This sliding scale can be called a $50K-$150K sliding scale. Similar to the sliding scale described above, the amount of family income determines the percentage of the full child care fee that has to be paid for each child. Families earning less than $50,000 would pay nothing, families earning more than $150,000 would pay 80%, and there would be a sliding scale of payments between. This sliding scale would be available for infants and toddlers but also children of kindergarten age (and presumably school age children, but our model only covers the effects related to children younger than compulsory school age).

The fifth simulation (Simulation E) provides prospective users of child care with a flat fee of $20 per child per day ($5,220 on an annual basis) for infants, toddlers, preschoolers and children of kindergarten age. The government would have to provide sufficient base funding for child care services so that they could lower the fee for child care for all ages to $20 per day per child. The existing subsidy system is not abolished, but it is amended in a way similar to that described for Simulation B. In particular, all financial and space restrictions on subsidy are assumed to be eliminated, so all eligible families that our model predicts will want to use licensed child care can access it. And, there is a relatively small change to income-eligibility requirements to make this more generous. Instead of child care being free of charge for families at incomes below $20,000, child care services would now be free for families with incomes below $40,000. Above that, the subsidy rules would resume, so families between $40,000 and $60,000 would pay 10% of their incremental income for child care, and families above that would pay another 30% of the incremental income.

The sixth simulation (Simulation F) models a tax credit for child care expenses similar to one available currently in Quebec (Laurin and Milligan, 2017). As suggested by Kevin Milligan, the tax credit would reimburse 75% of child care expenses at low incomes and falls to 26% coverage at higher levels of income. In other words, families at low incomes have to pay 25% of the full-fee and high-income earners pay 74% of the full-fee. We have seen in the charts above that this policy is negative for low-income families compared to the current situation. To reduce this effect, we assume that the current subsidy system continues to exist along with this new tax credit.[23] This is problematic in terms of policy design – there would now be two co-existing sliding scales, one for the subsidy system and one for the tax credit, overlaid on each other.

[23] Laurin and Milligan's (2017) policy recommendations were for the federal government and they recommended that this new child care expenses tax credit should replace the federal Child Care Expense Deduction. This is not really within the control of the Ontario government, so for this simulation, we assume the Child Care Expense Deduction continues.

Table 41 Child Care Demand and Employment in Six Simulations

	A. Base Case – Current Funding	B. Fully-funded subsidy system (sliding scale)	C. Sliding Scale - $40K - $240K	D. No charge for 2½-4-year-old children, plus $50K-$150K sliding scale	E. Operating Grant to $20 per day, plus fully-funded subsidy system with turning point at $40K	F. Tax Credit for Child Care Expenses, add on top of existing subsidy system
Description of Funding Reform	No change. Current subsidy system, plus existing wage and operating grants.	Keep current income limits in subsidy system but provide assistance to all eligible with no stigma, flexible rules, and adequate supply of funding and services.	Replace existing subsidy system with new sliding scale of payments for 0-6 years. Families earning less than $40K free. Above that income, families pay additional 4% of full fee for every extra $10K of income to $240K after which everyone pays 80% of full fee.	Use base funding to reduce fee for preschool-aged children to zero. Replace existing subsidy system with sliding scale. Families earning less than $50K free. Percent of fee paid as income rises to $150K, max at 80% of full fee.	Reduce full-fee for infants, toddlers, preschoolers and kindergarten children to $20 per day per child. Replace subsidy system with fully-funded, flexible-rules subsidy system with families earning less than $40K free.	Tax credit for child care expenses, provides a sliding scale of fee payments, but the sliding scale of the existing subsidy system is also maintained.
	Demand for Licensed Child Care – Number of Children					
Infant Demand	12,155	37,695	69,000	63,260	67,465	46,055
Toddler Demand	40,690	60,450	94,040	88,385	90,915	80,250
Preschool Demand	93,830	125,805	181,620	190,500	175,055	158,325
Kindergarten (B/A) Demand	91,725	118,975	181,502	172,710	171,750	156,595
	Employment (or Not Employment) of Main Caregiving Parents with Children 0-6 Years of Age					
FT employment (# of main caregiving parents)	331,045	381,920	458,435	452,945	448,470	427,340
PT employment	116,940	93,590	60,050	62,825	63,715	69,320
Not employed	158,515	130,990	88,015	90,730	94,315	109,840

Table 42 Affordability Measures in Six Simulations

	A. Base Case – Current Funding	B. Fully-funded, flexible-rules subsidy system (sliding scale)	C. Sliding Scale - $40K - $240K	D. No charge for 2½-4-year-old children, plus $50K-$150K sliding scale	E. Operating Grant to $20 per day, plus fully-funded, subsidy system with turning point at $40K	F. Tax Credit for Child Care Expenses. Maintain existing subsidy system.
	Number of Families with Children 0-4 Years of Age in Each Category of Affordability					
Affordable – measured by FIAM (families with children 0-4)	85,495	210,220	444,755	428,890	442,130	336,775
Unaffordable – measured by FIAM (0-4)	156,880	214,560	4,940	20,400	7,595	104,180
Completely Unaffordable – measured by FIAM (0-4)	207,580	24,955	35	440	0	8,990
	Overall Average Level of Family and Caregiving Parent Affordability Measures for Families with Children 0-4 Years					
Average Value of Family Income Affordability Measure for families with children 0-4	23.5%	10.3%	2.7%	2.7%	3.7%	7.8%
Average Value of Caregiving Parent Affordability Measure for families with children 0-4	67.3%	33.7%	9.5%	9.7%	12.6%	23.5%
	Average Level of Family Income Affordability Measure for Lone Parent and Two-Parent Families with Children 0-6					
Average Value of FIAM for lone parent families with children 0-6	25.1%	2.7%	0.2%	0.2%	0.5%	6.1%
Average Value of FIAM for couple families with children 0-6	19.9%	11.2%	2.9%	3.2%	4.2%	7.2%
	Average Level of FIAM by Expected Level of Family Income for Families with Children 0-6 Years					
Average Value of FIAM – families with < $50K family income	30.8%	2.7%	0.1%	0.0%	0.2%	8.0%
Average Value of FIAM – families with $50K-$100K of family income	21.2%	12.7%	2.4%	2.4%	5.1%	7.3%
Average Value of FIAM – families with$100K or more of family income	12.7%	12.2%	4.3%	5.0%	4.6%	6.0%

Table 43 Net Child Care Costs in Six Simulations

	A. Base Case – Current Funding	B. Fully-funded, flexible-rules subsidy system (sliding scale)	C. Sliding Scale - $40K - $240K	D. No charge for 2½-4-year-old children, plus $50K-$150K sliding scale	E. Operating Grant to $20 per day, plus fully-funded subsidy system with turning point at $40K	F. Tax Credit for Child Care Expenses. Maintain existing subsidy system.

	A. Base Case – Current Funding	B. Fully-funded, flexible-rules subsidy system (sliding scale)	C. Sliding Scale - $40K - $240K	D. No charge for 2½-4-year-old children, plus $50K-$150K sliding scale	E. Operating Grant to $20 per day, plus fully-funded subsidy system with turning point at $40K	F. Tax Credit for Child Care Expenses. Maintain existing subsidy system.
	Overall Average Net Child Care Cost and Average for Lone-Parent and Two-Parent Families – Children 0-6					
Average Net Annual Cost of Child Care to Parents after CCED	$13,395	$8,250	$2,505	$2,710	$3,110	$5,100
Average Net Cost – Lone Parents	$9,100	$1,450	$150	$135	$325	$2,280
Average Net Cost - Couples	$14,325	$9,725	$3,020	$3,270	$3,710	$5,715
	Average Net Child Care Cost by Level of Family Income – Children 0-6 Years					
Average Net Cost – Family income < $50K	$11,975	$1,185	$45	$0	$95	$3,145
Average Net Cost – Family income $50K - $100K	$13,935	$8,540	$1,650	$1,715	$3,500	$4,815
Average Net Cost – Family Income $100K and over	$13,960	$13,415	$5,245	$5,775	$5,050	$6,895
	Average Net Child Care Cost by Age of Youngest Child – Children 0-6 Years					
Average Net Cost – Youngest Child Infant	$20,175	$9,490	$3,100	$4,045	$3,225	$7,160
Average Net Cost – Youngest Child Toddler	$14,550	$9,340	$2,865	$3,825	$3,460	$5,590
Average Net Cost – Youngest Child Preschool	$11,160	$7,975	$2,370	$790	$3,150	$4,460
Average Net Cost – Youngest Child JK	$8,470	$6,400	$1,785	$2,705	$2,625	$3,420
Average Net Cost – Youngest Child SK	$8,630	$6,670	$1,860	$2,815	$2,730	$3,545

Table 44 Costs and Revenues in Six Simulations

	A. Base Case – Current Funding	B. Fully-funded, flexible-rules subsidy system (sliding scale)	C. Sliding Scale - $40K - $240K	D. No charge for 2½-4-year-old children, plus $50K-$150K sliding scale	E. Operating Grant to $20 per day, plus fully-funded subsidy system with turning point at $40K	F. Tax Credit for Child Care Expenses. Maintain existing subsidy system.
Additional Gross Funding Cost to Government	$0	$1,295m	$4,465m	$4,435m	$3,925m	$3,245m
Total Tax Revenue, Net of Benefits	$6,021m	$6,330m	$7,350m	$7,340m	$7,160m	$6,850m
Federal Tax Revenue, Net of Benefits	$4,258m	$4,515m	$5,315m	$5,300m	$5,165m	$4,925m
Ontario Tax Revenue, Net of Benefits	$1,763m	$1,815m	$2,035m	$2,040m	$1,995m	$1,925m
Parents' Contribution to Cost of Licensed Child Care	$2,053m	$2,170m	$1,300m	$1,165m	$1,620m	$2,060m

There are four tables that show the results from these six simulations. The first (Table 41) shows the amounts of child care demand and employment of the main caregiving parent that results from the policy situation described in each simulation. Remember that our model of child care demand and employment only covers children 0-6 years of age (not children already in Grade 1 and above).

Table 42 tabulates our measures of affordability – the Family Income Affordability Measure (FIAM) and the Caregiving Parent Affordability Measure (CPAM) – for each of the six policy simulations. Affordability measures are shown for different groups of families. The FIAM reflects the family's net child care cost as a percent of after-tax after-benefit family income. CPAM reflects the net child care cost as a percent of the expected income contribution of the main caregiving parent after taxes and benefits.

Table 43 tabulates the net family child care cost for its children 0-6 in the six simulations. These average costs vary by family income level, by the age of child and so on; average costs are shown broken down by these characteristics. Naturally, the different funding reforms lead to different net child care costs for different types of families.

Table 44 tabulates the cost and revenue implications for each of the six funding policy simulations.

8.5 CHILD CARE DEMAND AND EMPLOYMENT

The Base Case represents the current situation (2017). There is demand for infant care across the province amounting to 12,155 children, nearly 41,000 toddlers, 94,000 children of preschool age and 92,000 kindergarten children in before and after school care. Given current incomes and costs of child care for different families, our model projects employment of nearly 448,000 main caregiving parents, over 70% of them full-time. Nearly 160,000 main caregiving parents with children 0-6 are not employed. Note that main caregiving parents on maternity/parental leave are excluded from the model.

It may come as a surprise that part-time employment is higher in the base case than in other simulations. As we learn by looking through the simulations, part-time employment, rather than full-time, is one important way that families adapt when child care is unaffordable. In many cases, parents combine part-time employment with parental off-shifting to care for children, or with part-time care for children by relatives. When child care is affordable, part-time employment goes down, because full-time employment is now compatible with having children.

Of course, part-time employment is not the only adaptation that families can make when child care is unaffordable. As you can see on the row labelled “Not employed 0-6” many parents stay out of the labour force (and provide their own child care all day long) when licensed child care is unaffordable, as it is in the base case.

All five of the alternative policy simulations have substantial effects on child care demand and employment; all five simulations change child care costs for families and family behavior is sensitive to child care costs.

Simulation B suggests that even the existing subsidy system has the capability of providing assistance to many more families than at present; this simulation assumes the continuation of the subsidy system but there are no longer any funding or space shortages or stigma effects for families. In this case, the demand for all age categories of licensed child care rises substantially – by about 100,000 children 0-6 years of age. Parental employment also is projected to rise, by about 27,500, but there is also a substantial shift from part-time to full-time employment as child care is more affordable for some families.

Simulations C, D and E are projected to have fairly similar effects on child care demand and employment. Simulation C provides a $40K-$240K sliding scale of fees that replaces the existing subsidy system. Both low- and high-income families have reduced child care fees. Total demand for child care for children 0-6 is dramatically higher than in the base case, over 525,000 children would want to use licensed child care compared to about 240,000 in the base case. The increase in demand for infant care, previously very expensive, is particularly large – over 5 times as many children would demand infant care. Employment would grow substantially as well (presuming there were enough spaces to meet the extra demand) – by over 70,000 compared to the base case.

The changes in child care demand and employment for simulations D and E are a bit more modest, but of the same order of magnitude. There would be dramatic increases in both child care demand and employment (presuming no shortage of spaces to meet demand). Simulation D is the one providing free child care for preschool-aged children (so there is a particularly large increase in demand at this age) as well as a $50K-$150K sliding scale of payments for other age categories. Simulation E provides child care for infants, toddlers and preschoolers at $20 per day as well as releasing funding constraints on an amended subsidy system.

Simulation F would keep the existing subsidy system and provide a sliding-scale tax credit for child care expenses, similar to one of the ways used to fund child care in Quebec. The tax credit would apply to expenses for both licensed and unlicensed child care. The effects on demand and employment would be a bit smaller than for simulations C, D, and E. Compared to the base case, licensed child care demand would increase by about 200,000 spaces and parental employment would increase by a bit less than 50,000.

8.6 AFFORDABILITY MEASURES

Table 42 shows the impact of the six simulations on our measures of the affordability of licensed child care. The top three rows show how many families in Ontario with children 0-4 are calculated to find licensed child care affordable, unaffordable or completely unaffordable. This is the Family Income Affordability Measure, so the thresholds are less than 10% of family income (affordable), from 10% to 19.99% (unaffordable) and 20% or above (completely unaffordable). Currently, only somewhat over 85,000 families find licensed child care affordable but that rises to well above 400,000 families in simulations C, D or E and about 340,000 families with the tax credit for child care expenses in simulation F. Any of the simulations dramatically reduce the number of families who find child care to be "completely unaffordable".

Distributions of affordability by number of parents and by family income are particularly interesting. In the base case, measured by the Family Income Affordability Measure for families with children 0-6, child care eats up more of family income on average for lone parent than for two parent families – 25.1% vs. 19.9%. The subsidy system does dramatically reduce the effective price of child care for many lone parent families, but there are many others eligible but not receiving subsidy.

This is reflected in the distribution of affordability by family income as well. Families projected to earn less than $50,000 will, on average, have to spend over 30% of after-tax income if they want to access licensed child care. This falls to 21.2% for those earning $50,000 to $100,000 and 12.7% for families earning $100,000 and above. Licensed child care is not really affordable on average for any of these groups of families.

All five other simulations have strong impacts on affordability. Making subsidized child care spaces available to all families eligible under the current income rules (i.e., simulation B) would itself dramatically improve affordability, particularly for lower-income and lone parent families. Simulations C, D and E have similar distributional impacts on affordability, lowering it substantially for both lone parent and two parent families. The $20 per day simulation is somewhat less beneficial for middle-income families than either the $40K-$240K sliding scale or free care for preschool-aged children combined with a $50K-$150K sliding scale. Simulation F, the tax credit for child care expenses, has a much smaller (but still large relative to the base case) impact on improving affordability for both lone parent and two parent families. However, even when paired with the current subsidy system, it leaves low-income families with child care that is less affordable than for middle-income or high-income families.

8.7 NET CHILD CARE COSTS

Table 43 makes the issue of affordability more concrete, calculating the average net cost of licensed child care for different types of families with children 0-6 years. The average net cost subtracts the value of the Child Care Expense Deduction that each family would be eligible for (given the income of the lower earner and the projected amount of child care expenses) from the full fee that parents would have to pay.[24] Of course, it also subtracts any financial assistance or child care subsidy for which a family would be eligible in that particular simulation.

In the base case, the average net child care cost that Ontario families face for their children 0-6 is $13,395. For lone parents, subsidy reduces the average to just over $9,000. For couple families, the average net child care cost is over $14,000. All income groups face high average child care costs. For families earning under $50,000, the average cost is just about $12,000, while for middle- and higher-income families, the average cost is nearly $14,000.

Costs are strongly related to child's age. Families with at least one infant child face an average child care cost over $20,000, even accounting for the CCED and subsidies. Families in which the youngest child is a toddler have average costs of about $14,500, and with a preschool child, the average cost is over $11,000. Families in which the youngest child is in kindergarten face average child care costs close to $8,500.

While making subsidies available to all eligible families (Simulation B) would lower net child care costs, they would still average over $8,000 and be unaffected for higher-income families (still over $13,000 on average).

As with other tables in this group, Simulations B, C, and D would all have dramatic effects on affordability – the average net cost of child care would fall to between $2,500 and $3,100, approximately. All these simulations are very positive for lone parents and two parent families. All are particularly strong in reducing net child care costs for low-income families and have substantial, but lesser, effects in reducing costs for middle- and higher-income families.

The tax credit for child care expenses has a substantial, but smaller, effect on the average net cost of licensed child care. The average net cost of child care would be just over $5,000 per family, lower for lone parents than for two parent families. And, lower for low-income than for middle- or higher-income parents. The average child care cost for families with an infant

[24] As we have noted elsewhere in this report, there is controversy over whether to think of the CCED as child care assistance or as a necessary component of horizontal equity in taxation of employed parents. Here we treat it as a form of child care assistance.

would now be just over $7,000 annually and between about $3,500 and $5,500 for families with other ages of children.

8.8 COSTS AND REVENUES

Table 44 focuses on overall totals of costs and revenue effects due to different child care policies. The top row shows the additional cost to government due to each simulation. Naturally, the additional cost in the base case is zero – this represents the current situation. Parents of young children pay a considerable amount in taxes, even after deducting what they receive in child benefits. In the current situation (i.e., the base case), total government revenues from these families (as calculated by the Canadian Tax and Credit Simulator; Milligan, 2016) amount to just over $6 billion, with about $4.3 billion going to the federal government and about $1.7 Billion going to the provincial government.

We have also used the model to calculate the total amount of the costs of licensed child care that are paid by parents (not including the CCED). In the current situation, parents contribute just over $2 billion.

If child care subsidies were funded and spaces available for all eligible families, in Simulation B, the additional subsidies would cost government about $1.3 billion per year. The net cost is less, though, because, as parental employment rises, tax revenues will rise even in the short run.[25] Tax revenues rise by about $300 million relative to the base case, but the majority of this accrues to the federal government.

The parental contribution to the costs of child care rises in this simulation. Of course, individual families are paying less, but more of them are using licensed care, giving us this result.

The additional cost to government of the $40K-$240K sliding scale would be nearly $4.5 billion. However, tax returns rise, even in the short run, by over $1.3 billion. So, the net cost of this comprehensive approach to improving affordability is only about $3.2 billion annually. However, the lion's share of additional tax revenues go to the federal government; it is an important policy task for the provincial government to retrieve some of these additional funds from the federal government to fund child care programs.

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[25] A number of studies have found that child care causes government revenues to rise by greater amounts in the medium-term because parents stay in the labour force in greater numbers after their children are in school (Lefebvre, Merrigan and Verstaete, 2009; Laurin and Milligan, 2017). For the longer run, other studies have found increases in productivity and growth that would increase these revenue gains by even more (Fortin, Godbout and St-Cerny, 2013; Peterssen, Marischal and Ishi, 2017).

Simulation D would make licensed child care free of charge for children of preschool age (largely 3-year-olds); at the same time, fees for other age categories of children would be paid based on income according to a sliding scale ($50K-$150K sliding scale). The overall additional cost to government would be nearly $4.5 billion. As with simulation C, there would be over $1.3 billion of additional tax revenues for governments in the short term, much of it going to the federal government. The net cost to governments would therefore be about $3.2 billion.

Simulation E would cap child care fees for infants, toddlers and preschoolers at $20 per day (just over $5,000 per full year). This would be combined with full funding of a subsidy system with slightly more generous income rules than the current one. The additional cost of this program would be nearly $4 billion. Additional revenues of over $1.1 billion would come to governments, most of it to the federal government.

Finally, simulation F would maintain the existing subsidy system (without expanded funding) and provide a tax credit for child care expenses. The gross cost of this program would be over $3.2 billion. Additional taxes of over $800 million would be generated by increased employment and incomes. The net cost of this program would therefore be about $2.4 billion.

8.9 SUMMARY OF EVIDENCE FROM SIMULATIONS

These simulations show us several things. First, they confirm that licensed child care is unaffordable for many families now. Families with young children (0-4) now have to spend, on average, over 23% of their after-tax family income to access licensed child care services, taking into account the subsidy system and other benefits that reduce the price of child care to families. That is fully 2/3rds of the income contribution from employment that a main caregiving parent can make to the family, on average. It's no wonder that many families say that child care is unaffordable.

The second simulation (Simulation B) – transforming the subsidy system into an accessible and fully-funded sliding scale, where parents have guaranteed access to financial assistance – has strong impacts on affordability and child care use. Even though the income requirements for financial assistance are unchanged from the existing subsidy system, having access to financial assistance as a right is obviously very different from the current restrictive constrained child care subsidy system. These income requirements are targeted at low to medium income families; affordability improves dramatically for low-income families and for many middle-income families, but not for families earning $100,000 and above.

The third simulation (Simulation C) – a generous sliding scale where the amount of family income determines the fraction of the full fee that parents must pay – transforms the child care system into one that is affordable to virtually all families. In this simulation, families earning $40,000 or less get child care for free. Families earning $240,000 and above pay 80% of the full cost of child care used by their family. Between those two income limits, the fraction of the full fee that parents pay rises steadily with pre-tax family income. For every additional $2,500 earned above $40,000, a family pays an extra 1% of the full fee. At an income of $145,000, a family would pay 50% of the cost and be subsidized for the other 50%. Demand for all age categories of licensed child care increases dramatically in this simulation, more than doubling overall and, for instance, rising to nearly six times its current level for infants. There would be important problems of phasing-in access with this rapid expansion, discussed in the chapter on transitions. Affordability is dramatically improved. The average percent of family income that a family would spend on licensed child care would now be 2.7%, and the average percent of the main caregiving parent's income contribution would be 9.5%. Affordability is dramatically improved for all income groups, relative to the base case, and particularly for low-income families. This, along with simulation D, are the most costly simulations in terms of total government expenditure (nearly $4.5 billion), but there are large effects on families and there are tax revenues of an additional $1.3 billion that come with increase employment in the short run. There may be additional employment effects and tax revenues in the longer term. Further, the model does not calculate savings in social assistance payments related to increased employment and incomes.

The fourth simulation (Simulation D) would make child care services for children from 2½-4 into a public service – free of charge to all children in the period before kindergarten. It combines this with a $50K-$150K sliding scale for infants, toddlers and kindergarten children. Affordability is very substantially improved for lone-parent and two-parent families, and for families in all income categories, particularly lower-income families. On average, families with children 0-4 would now pay 2.7% of after-tax family income to access licensed child care services. Compared to the base case, over 340,000 additional families with children 0-4 would now find licensed child care to be affordable, using our conventional thresholds for affordability. There are substantial increases in the demand for infant and toddler child care, and an especially large increase in the demand for preschool care in this simulation.

The fifth simulation (Simulation E) targets operating grants at infant, toddler and preschool children, lowering the full fee to $20 per day per child for each of these age categories, but not for children of kindergarten age. The expanded fully-funded subsidy system provides financial assistance to kindergarten children (before-and-after school care) and to families that cannot afford $20 per day. This simulation substantially improves affordability – to 3.7% of after-tax family income on average for families with children 0-4. There are substantial increases in the demand for infant and toddler care particularly and important increases for other ages as well.

The final simulation (Simulation F) considers adopting a tax credit for child care expenses similar to one that is part of the funding system in Quebec. The existing Child Care Expense Deduction (federal and provincial) continues along with this new tax credit. The income thresholds for this refundable tax credit mimic those in Quebec – 75% refund to families earning below about $35,000, 70% from $35,000 to about $41,500 and so on. The final income threshold is at about $150,000; above this income level, families are compensated for 26% of their child care expenses. The existing subsidy system (not fully funded) is continued along with the tax credit.

This tax credit has effects on affordability that are notably less effective than for simulations C, D and E simulation. With this tax credit, families with children 0-4 would pay, on average, 7.8% of their after-tax family income to access licensed child care. In affordability terms, this option delivers less to low-income families. Families with incomes below $50,000 would pay 8.0% of net incomes, families between $50,000 and $100,000 would pay 7.3% of income and families at $100,000 and above would pay out 6.0% of net family income. This pattern, in relation to family income, is opposite to those of other alternative policies.

8.10 CONCLUSIONS

Only two of these simulations are ones that we think should be considered seriously for implementation. Both the generous sliding scale (Simulation C) and free child care for preschool children plus a $50K-$150K sliding scale (Simulation D) have very positive effects on affordability and desirable distributional effects in terms of income groups and lone parent/two parent affordability.

The tax credit has a number of problems, even ignoring discussion of demand-side vs. supply-side approaches. As we saw in the charts in the first part of this chapter, the tax credit for child care expenses is quite negative for low-income families if it is seen as a replacement for the existing subsidy system. Lone parent families earning less than about $50,000 (i.e., most lone parents) would be worse off than with the existing subsidy system. Even if the existing subsidy system is combined with the tax credit (as in Tables 41 through 44), this option does not do as good a job as other alternatives for low- and middle-income families.

Further, the tax credit for child care expenses, if combined with the existing subsidy system, produces an unusual animal. The existing subsidy system is a sliding scale; the tax credit is also a sliding scale. It is not clear how these two sliding scales should interact, producing a funding system that is not transparent for parents who will have difficulty understanding its effects. On top of this, there would now be three forms of tax relief for child care expenses – the existing federal Child Care Expense Deduction, the existing provincial Child Care Expense Deduction, and the new provincial tax credit for child care expenses. Combined with the maintenance of the existing subsidy system, this looks like a patchwork of conflicting and overlapping funding systems, rather than a coherent and understandable way to improve child care affordability.

The $20 per day per child funding model is less problematic, but on balance not the most desirable option. The $20 per day approach would get high marks on transparency and ease of understanding. If it was not combined with special arrangements for low-income families, it would make child care less affordable for them. However, combined with a fully funded child care subsidy system for low-income families, this option would very substantially improve affordability.

This option is a little bit cheaper in terms of overall cost, but factoring in tax revenues, the net cost of the program is similar to the $40K-$240K sliding scale and the free preschool plus $50K-$150K. And, particularly for lone parents in the income range from $20,000 to $90,000, either one of the sliding scale approaches does more to reduce employment barriers and to provide income incentives to being in the labour force.

Either of the new funding policies reflected in simulations C ($40K-$240K sliding scale) and D (free for preschool plus $50K-$150K sliding scale) would have dramatic effects in improving the affordability of child care for all families. There are, however, very important problems of phase-in or transition to consider. There are not nearly enough licensed spaces to meet all the demand that would be created if the government were to implement either of these options immediately. In the upcoming chapter on transitions, we will discuss how these issues of transition affect our recommendation about the best new funding approach.

CHAPTER 9: WORKFORCE ISSUES, COMPENSATION AND COSTS

Chapter Summary

- It is not possible to solve child care affordability problems without considering workforce compensation; wage and benefit payments are by far the largest component of child care costs and, for many reasons, compensation of child care staff will rise.

- The government needs a strategic plan to address workforce issues in order to manage rapid expansion of the sector.

- This would include establishing target levels of education and training, the design of a salary ladder, target compensation packages, and recruitment issues.

- Taking all workers in child care centres together, the median wage level in Ontario (before minimum wage rises) is between $15 and $20 per hour. In most parts of the province, unqualified staff receive (in March 2017) a wage which is very low ($11.40-$15 per hour at the median). Qualified staff receive between $15 and $20 per hour. Even supervisors' wages are not particularly high across most of the province at $20-$26.68 per hour at the median. Toronto is an exception, with hourly wages for unqualified and qualified program staff and supervisors being higher, at the median, than in the rest of the province; Ottawa is a partial exception, too.

- If we compare hourly wages in other occupations to those in child care, we get a sense of the difficulties of recruiting additional qualified workers at current wages. Current child care wages appear to be competitive with other occupations when workers are 15-24 years of age. However, child care wages are distinctly uncompetitive with hourly wages paid to female workers who are 25-54 years of age in many occupations across the province.

- Compensation levels need to rise in child care if expansion is going to be possible. In particular, compensation levels need to rise so that the staff that are recruited will be capable, well-qualified staff who will decide to stay in the sector.

- We have developed a spreadsheet-based costs model for child care centres in Ontario; this suggests that staffing costs are often over 80% of infant costs, are generally less than 80% of toddler costs, and are often less than 70% of costs for children of preschool age.

- ❖ We use the costs model to calculate the impact of a 10% increase in wages, a 5 percentage-point increase in benefits, and the impact of reaching a desirable target level of compensation for all child care workers; we also model the effect of having all contact staff as qualified RECEs.
- ❖ This type of costs modelling has an important role to play in controlling costs, determining appropriate fees, and capping fees.
- ❖ Manitoba, PEI, and Saskatchewan have created policy models with some useful lessons – about salary grids, benefit packages, professional development, and caps on fees.

9.1 WORKFORCE ISSUES, COMPENSATION AND COSTS

Why should we discuss workforce compensation issues and costs in a study of child care affordability? There are several reasons:

- As child care is made more affordable, demand for it will rise, meaning more demand for trained staff. There are already shortages of qualified staff in child care centres, and shortages of providers willing to be recruited to provide home child care. This means that compensation will have to rise to recruit more early childhood educators and home child care providers. This could impact affordability unless addressed.
- Shortages of staff pose a threat to the maintenance of quality as the child care system expands. Finding ways to avoid staff shortages and stimulate the supply of educators will reduce threats to quality.
- The recent rise in Ontario's minimum wage has affected many child care workers, because many previously received a base rate (before Wage Enhancement Grant) that was at or close to the previous level of the minimum wage. The rise to $14 per hour (and to $15 on January 2019) is positive for those workers, but temporarily negative for the sector. Wages for trained staff are now, relatively speaking, too low, and this will have to be addressed in order to recruit large numbers of early childhood educators.
- There will be pressures for all costs to rise as the child care sector expands. Some of these cost rises will be legitimate and will contribute to building the type of licensed child care system Ontario needs. Others will not. It is not easy to tell one from the other, so provincial and municipal officials need to be prepared for an expanded role in assessing (sometimes called benchmarking) child care costs to determine how much compensation providers should receive for services.

All of these mean that it is not really possible to discuss increased affordability and reform of the child care system without discussing issues of workforce compensation in particular, and the cost of providing child care services in general. It is certainly not possible to develop policy recommendations for dramatically improving affordability without considering both the likely and the desired impacts of new funding on workforce compensation. Wage and benefit payments are the largest element by far in the costs of child care centres who are the main providers of licensed services. When wages rise, costs rise and the full fee charged by operators must rise, unless the government is willing to increase funding to cover higher compensation for child care educators and other staff.

In fact, the Ministry of Education needs a workforce strategy to accompany its affordability strategy. In other words, the Ministry needs a plan – a strategic direction – to address the compensation issues that will come up as the sector expands rapidly. A strategy is a planned response to a series of interconnected issues that cannot effectively be addressed separately.

This strategy needs to address issues such as:

- The target level of education/training of child care educators in the long run. Are we aiming for university-level education for some staff? Do we want all program staff to be qualified? Will that make child care too expensive?

- Where will the new early childhood educators come from as the system expands? What occupations do we have to compete with to get a larger share of new college graduates? What are the typical compensation packages in those occupations that the child care system needs to match or better?

- The need for a salary ladder in child care – a progressive set of occupational descriptions in the field, with associated expected salary levels, that creates the possibility and vision of rising through the ranks. What would that look like in Ontario – what would the new occupational levels and requirements be? How much wage differentiation does there need to be between different levels in order to provide encouragement to stay in the field and have incentives to upgrade skills?

- How sensitive is the supply of new workers likely to be to increasing compensation levels? Are these new workers going to have the characteristics we need for an expanded system of high quality? What does that mean about how much of an increase in compensation will be needed?

- If we have a crisis of inadequate supply of program staff in the next few years, what compromises are we willing to make to find staff quickly? What do we think about wholesale recognition of prior learning and experience, which Quebec did early in its expansion? Does this create problems?

- What about expanding immigration to recruit new early childhood educators? Are there any problems with this approach?

- How big is the effect on costs of changes in wages, benefits and working conditions? How much of a feedback effect on costs and fees do we expect from rising wages and compensation?

No doubt there are other related issues as well.

A workforce strategy is necessary because the government has twin and conflicting interests. It does not want compensation of child care educators to be so high that child care is completely unaffordable and high cost. But, child care educators are the ones that produce the quality of experiences that children have every day. So, the government needs to ensure that staff compensation (wages, working conditions and benefits) is sufficient to attract and retain the workers who will build a high quality child care system.

Right now, the compensation of child care workers is, with some exceptions, notoriously low…so low that it is hard to recruit and retain staff, so low that becoming a child care educator is something you can only afford to do when you're young, so low that it is impossible to contemplate a dramatic expansion of the sector while maintaining and enhancing the quality of services. So, government also has a very strong interest in ensuring that staff compensation is fully adequate and structured to provide strong incentives for constant self-improvement.

9.2 HOW MUCH DO CHILD CARE WORKERS EARN IN ONTARIO?

Let's look at some evidence about wages of child care workers in Ontario. The tables below summarize data from the 2017 Child Care Operators' Survey. The reported data does include the effect on wages of the $2 per hour Wage Enhancement Grant for many child care workers – therefore, for most workers, the lowest wage category is actually $13.40 to $15.00, rather than $11.40 to $15.00. Since the data is from 2017, it does not include the effect of the increase in the minimum wage from $11.60 to $14.00 on January 1st, 2018.

This data is provided by child care centres in Ontario in response to a Ministry of Education survey. Centres were asked how many staff of different types (e.g., qualified full-time, qualified part-time, unqualified full-time, unqualified part-time, Supervisory full-time, Supervisory part-time, etc.) were in different hourly wage categories. The data is from March 31, 2017 and nearly 4,800 out of 5,351 centres responded[26] to this part of the survey. The wage data is reported including the effects of the Wage Enhancement Grant ($2 per hour for eligible staff).

The first table summarizes some key results about median wage levels, while other tables provide details about the dispersion of wage levels across centres and individual workers.

The bottom row provides a quick summary. Across all staff, the median wage in centres in every region and on First Nations reserves is $15-$20 per hour. In other rows, we find that unqualified staff generally receive lower wages than this, supervisors generally receive more. In Toronto, median wage levels are higher for some occupational categories.

[26] The numbers of staff recorded in the tables below are lower than the actual number of staff for several reasons, including non-response. The data set suggests that there is a total of 48,637 staff across the province but the Ministry of Education calculates the correct number to be about 65,100.

Table 45
Summary Table: Median Wage Levels in Ontario Child Care Centres by Occupational Category, by Region, 2017

Occupation	Toronto	West Toronto	Central	Southwest	East	North	First Nations	Whole Province
	Median Level of Wages by Occupational Category in Child Care Centres							
Qualified Program Staff	$20-$26.68	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20
Unqualified Program Staff	$15-$20	$11.40-$15	$11.40-$15	$11.40-$15	$15-$20	$11.40-$15	$11.40-$15	$11.40-$15
Supervisors	$30-$35	$20-$26.68	$20-$26.68	$20-$26.68	$20-$26.68	$20-$26.68	$20-$26.68	$20-$26.68
Non-Program Staff	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20
All Staff in Centres	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20	$15-$20

Source: Ministry of Education

Table 46
Number and Percent of All Child Care Workers Paid in Each Hourly Wage Category, by Region, 2017
All Staff

Hourly Wage	Toronto	West Toronto	Central	Southwest	East	North	First Nations	TOTAL
	Number of all staff in each region at each wage level (incl. Supervisors)							
$11.40-$15	2,337	2416	3,998	2,442	1,392	770	210	13,565
$15-$20	3,601	2,865	4,311	4,467	2,302	1081	253	18,880
$20-$26.68	3,401	1,850	1,782	2,040	1,698	525	143	11,439
$26.68-$30	811	260	234	229	287	115	11	1,947
$30-$35	838	155	143	189	257	42	6	1,630
$35-$40	296	59	57	69	81	24	9	595
$40 plus	306	46	138	40	35	15	1	581
TOTAL	11,590	7,651	10,663	9,476	6,052	2,572	633	48,637
	Percent of all staff in each region at each wage level (incl. Supervisors)							
$11.40-$15	20.2%	31.6%	37.5%	25.8%	23.0%	29.9%	33.2%	27.9%
$15-$20	31.1%	37.4%	40.4%	47.1%	38.0%	42.0%	40.0%	38.8%
$20-$26.68	29.3%	24.2%	16.7%	21.5%	28.1%	20.4%	22.6%	23.5%
$26.68-$30	7.0%	3.4%	2.2%	2.4%	4.7%	4.5%	1.7%	4.0%
$30-$35	7.2%	2.0%	1.3%	2.0%	4.2%	1.6%	0.9%	3.4%
$35-$40	2.6%	0.8%	0.5%	0.7%	1.3%	0.9%	1.4%	1.2%
$40 plus	2.6%	0.6%	1.3%	0.4%	0.6%	0.6%	0.2%	1.2%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Ministry of Education

This table groups all staff together by wage level, with numbers tabulated for each region separately. Toronto, in particular, has more staff and higher wage levels, so it is useful to break this data down by region. The top part of the table shows the number of staff at each wage level. The bottom part shows the percent of staff in each region at each wage level. Full-time and part-time staff are grouped together. When looked at separately, it appears the hourly wages of full-time and part-time staff are similar (there will be differences in benefits between full-time and part-time staff but these are not recorded in the data set).

The data on percent of staff at each wage level are useful for calculating the median wage in each region because the median is the 50th percentile. Looking at the bottom part of the table, we can see that the median in each region is in the $15-$20 range.

The previous table grouped together all staff, but it is more useful to break staff down into qualified program staff, unqualified program staff, non-program staff and supervisors. The next four tables do precisely that. The form of each table is similar to the one above, with the numbers of staff in the top half of the table and the percent of staff in the bottom half. In each case, full-time and part-time staff are both included.

Table 47
Number and Percent of Qualified Program Staff in Each Hourly Wage Category, by Region, 2017

Hourly Wage	Toronto	West Toronto	Central	Southwest	East	North	First Nations	TOTAL
	Number of full and part time qualified contact staff at each wage level in each region							
$11.40-$15	387	841	901	934	380	177	43	3,663
$15-$20	1,851	1,569	2,539	2,905	1,166	628	163	10,821
$20-$26.68	2,466	1,206	1,135	1,440	1,193	279	91	7,810
$26.68-$30	546	168	57	82	126	55	2	1,036
$30-$35	609	43	41	52	103	13	0	861
$35-$40	131	19	14	47	16	0	4	231
$40 plus	43	5	62	2	6	0	0	118
TOTAL	6,033	3,851	4,749	5,462	2,990	1,152	303	24,540
	Percent of full and part time qualified contact staff at each wage level in each region							
$11.40-$15	6.4%	21.8%	19.0%	17.1%	12.7%	15.4%	14.2%	14.9%
$15-$20	30.7%	40.7%	53.5%	53.2%	39.0%	54.5%	53.8%	44.1%
$20-$26.68	40.9%	31.3%	23.9%	26.4%	39.9%	24.2%	30.0%	31.8%
$26.68-$30	9.1%	4.4%	1.2%	1.5%	4.2%	4.8%	0.7%	4.2%
$30-$35	10.1%	1.1%	0.9%	1.0%	3.4%	1.1%	0.0%	3.5%
$35-$40	2.2%	0.5%	0.3%	0.9%	0.5%	0.0%	1.3%	0.9%
$40 plus	0.7%	0.1%	1.3%	0.0%	0.2%	0.0%	0.0%	0.5%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Ministry of Education, 2017

The median wage level for qualified staff is $20-$26.68 in Toronto, but it is $15-$20 in all other regions. There are more municipal centres and unionized centres in Toronto than in other regions. Staff in these centres tend to be more highly paid.

Table 48
Number and Percent of Unqualified Program Staff in Each Hourly Wage Category, by Region, 2017

Hourly Wage	Toronto	West Toronto	Central	Southwest	East	North	First Nations	TOTAL
	Number of full and part time unqualified contact staff at each wage level in each region							
$11.40-$15	1,660	1284	2,621	1,086	794	478	101	8,024
$15-$20	1,405	907	1,201	907	722	268	29	5,439
$20-$26.68	553	304	131	58	174	59	2	1,281
$26.68-$30	57	11	15	8	7	3	0	101
$30-$35	17	0	14	7	5	0	1	44
$35-$40	8	0	6	0	2	0	2	18
$40 plus	14	2	2	0	4	0	0	22
TOTAL	3,714	2,508	3,990	2,066	1,708	808	135	14,929
	Percent of full and part time unqualified contact staff at each wage level in each region							
$11.40-$15	44.7%	51.2%	65.7%	52.6%	46.5%	59.2%	74.8%	53.7%
$15-$20	37.8%	36.2%	30.1%	43.9%	42.3%	33.2%	21.5%	36.4%
$20-$26.68	14.9%	12.1%	3.3%	2.8%	10.2%	7.3%	1.5%	8.6%
$26.68-$30	1.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.0%	0.7%
$30-$35	0.5%	0.0%	0.4%	0.3%	0.3%	0.0%	0.7%	0.3%
$35-$40	0.2%	0.0%	0.2%	0.0%	0.1%	0.0%	1.5%	0.1%
$40 plus	0.4%	0.1%	0.1%	0.0%	0.2%	0.0%	0.0%	0.1%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Ministry of Education, 2017

Unqualified program staff are teaching staff (i.e., contact staff) who do not have an RECE designation or equivalent. In fact, there are no specific qualifications necessary. If there are three teaching staff in a group, two of them can be unqualified staff and one a qualified RECE or equivalent (one of every two in a group must be qualified for preschool age). In some cases, there are only two teaching staff managing a group, in which case one of them can be unqualified and one qualified.

As you can see in the table above, the median hourly wage for unqualified staff is $15-$20 in Toronto and in the Eastern Region (with Ottawa pulling the median up). In all other regions, over 50% of unqualified staff are in the lowest wage category $11.40-$15.00 per hour, so the median wage is in this category.

Table 49
Number and Percent of Child Care Supervisors in Each Hourly Wage Category, by Region, 2017

Hourly Wage	Toronto	West Toronto	Central	Southwest	East	North	First Nations	TOTAL
	Number of full and part time supervisory staff at each wage level in each region							
$11.40-$15	17	28	38	42	52	6	3	186
$15-$20	65	137	277	276	119	59	8	941
$20-$26.68	247	297	447	368	180	129	34	1,702
$26.68-$30	170	68	145	122	119	40	9	673
$30-$35	176	41	78	123	89	26	5	538
$35-$40	130	19	22	22	34	23	3	253
$40 plus	202	21	29	25	18	14	1	310
TOTAL	1,007	611	1,036	978	611	297	63	4,603
	Percent of full and part time supervisory staff at each wage level in each region							
$11.40-$15	1.7%	4.6%	3.7%	4.3%	8.5%	2.0%	4.8%	4.0%
$15-$20	6.5%	22.4%	26.7%	28.2%	19.5%	19.9%	12.7%	20.4%
$20-$26.68	24.5%	48.6%	43.1%	37.6%	29.5%	43.4%	54.0%	37.0%
$26.68-$30	16.9%	11.1%	14.0%	12.5%	19.5%	13.5%	14.3%	14.6%
$30-$35	17.5%	6.7%	7.5%	12.6%	14.6%	8.8%	7.9%	11.7%
$35-$40	12.9%	3.1%	2.1%	2.2%	5.6%	7.7%	4.8%	5.5%
$40 plus	20.1%	3.4%	2.8%	2.6%	2.9%	4.7%	1.6%	6.7%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Ministry of Education, 2017

Supervisors, as one would expect, receive a higher hourly wage than other staff. In Toronto, this typical wage is considerably higher - the median Supervisor's wage is $30-$35 per hour. In all other regions, it is $20-$26.88 per hour.

Table 50
Number and Percent of Non-Program Staff in Each Hourly Wage Category, by Region, 2017

Hourly Wage	Toronto	West Toronto	Central	Southwest	East	North	First Nations	TOTAL
	Number of full and part time non-program staff at each wage level in each region							
$11.40-$15	273	263	438	360	166	109	63	1,672
$15-$20	280	252	294	379	295	126	53	1,679
$20-$26.68	135	43	69	174	151	58	16	646
$26.68-$30	38	13	17	17	35	17	0	137
$30-$35	36	71	10	7	60	3	0	187
$35-$40	27	21	15	0	29	1	0	93
$40 plus	47	18	45	13	7	1	0	131
TOTAL	836	681	888	950	743	315	132	4,545
	Percent of full and part time non-program staff at each wage level in each region							
$11.40-$15	32.7%	38.6%	49.3%	37.9%	22.3%	34.6%	47.7%	36.8%
$15-$20	33.5%	37.0%	33.1%	39.9%	39.7%	40.0%	40.2%	36.9%
$20-$26.68	16.1%	6.3%	7.8%	18.3%	20.3%	18.4%	12.1%	14.2%
$26.68-$30	4.5%	1.9%	1.9%	1.8%	4.7%	5.4%	0.0%	3.0%
$30-$35	4.3%	10.4%	1.1%	0.7%	8.1%	1.0%	0.0%	4.1%
$35-$40	3.2%	3.1%	1.7%	0.0%	3.9%	0.3%	0.0%	2.0%
$40 plus	5.6%	2.6%	5.1%	1.4%	0.9%	0.3%	0.0%	2.9%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Ministry of Education, 2017

There are a relatively small number of non-program staff in Ontario child care centres. In every region, the median wage for these staff is in the $15-$20 range.

After looking at this group of tables, the general picture of wage levels in licensed child care centres is pretty clear. In most parts of the province, unqualified staff receive a wage which is very low ($11.40-$15 per hour at the median) even with the $2 per hour Wage Enhancement Grant added in. In Toronto and Ottawa, the median wage for unqualified staff is $15-$20 at the median.

Qualified staff in most parts of the province receive between $15 and $20 per hour. However, even then, in most regions, at least 15% of staff with RECE qualifications receive between $11.40 and $15.00 an hour with the Wage Enhancement Grant included. Toronto's qualified staff earn $20-$26.68 at the median. And, between 24% and 40% of qualified staff in other regions earn $20-$26.68 per hour.

Even supervisors' wages are not particularly high across most of the province at $20-$26.68 per hour at the median. In Toronto, the median supervisor gets $30-$35 per hour but there is a wide dispersion of wage rates for supervisors.

9.3 HOW HIGH ARE HOURLY WAGES IN COMPETING INDUSTRIES?

If licensed child care is to grow, it needs to attract young people who would normally end up in other occupations. It also needs to be able to attract workers who already have an ECE diploma, but have gone into other occupations and industries.

It is worth comparing current wage levels in child care (which we have just seen) to those in other occupations across the province. This can help us to think about the problem of trying to recruit staff into child care, especially qualified staff. Recruitment of qualified staff will be a major problem if the licensed child care sector is to be made much more affordable and to expand dramatically.

The table below shows data on hourly wages of female workers in Ontario from the Labour Force Survey in 2016 in some occupations that the child care sector might wish to recruit from. This table provides average hourly wages for different occupations and for age groupings 15-24 years of age and 25-54 years of age.

Let's consider the broad picture that emerges from comparing these hourly wages to those currently paid in child care centres. Child care centres pay hourly wages which are, in many cases, competitive with the hourly wages that 15-24-year-old female workers (generally female workers with little experience and modest or recent qualifications) receive in a range of occupations, including some health and education occupations. In other words, child care pays $15-$20 per hour as do these occupations when the worker is young and inexperienced (15-24 years of age).

However, child care wages are distinctly uncompetitive with hourly wages paid to workers who are 25-54 years of age in most occupations. Those workers earn, on average, between $20 and $30 for the most part. The exception here is a range of retail sales and service occupations, most of which do not require college qualifications. Hourly wages paid to qualified RECE staff are reasonably competitive with most of these occupations (generally less than $20 per hour on average).

In brief, it will be very difficult to recruit and keep staff who can do better in a wide range of occupations outside child care. Compensation levels will need to increase in child care if expansion is going to be possible. In particular, compensation levels need to rise so that the staff that are recruited will be capable, well-qualified staff who will decide to stay in the sector.

Table 51
Average Hourly Wage of Female Workers in Selected Occupations, by Age Category of Workers, Ontario 2016

National Occupational Classification (NOC)	2016 Average Hourly Wage for Workers 15-24 years of age	2016 Average Hourly Wage for Workers 25-54 years of age
Finance, insurance and related business administrative occupations [13]	$17.71	$25.13
Office support occupations [14]	$14.98	$21.15
Distribution, tracking and scheduling co-ordination occupations [15]	$13.86	$20.58
Professional occupations in nursing [30]	$30.33	$34.88
Technical occupations in health [32]	$18.80	$27.66
Assisting occupations in support of health services [34]	$17.29	$20.53
Professional occupations in education services [40]	$22.21	$37.35
Professional occupations in law and social, community and government services [41]	$21.20	$36.08
Paraprofessional occupations in legal, social, community and education services [42]	$14.80	$22.27
Care providers and educational, legal and public protection support occupations [44]	$17.57	$20.91
Professional occupations in art and culture [51]	$15.31	$27.16
Technical occupations in art, culture, recreation and sport [52]	$14.19	$24.22
Retail sales supervisors and specialized sales occupations [62]	$12.94	$20.14
Service supervisors and specialized service occupations [63]	$12.09	$16.32
Sales representatives and salespersons - wholesale and retail trade [64]	$11.75	$17.56
Service representatives and other customer and personal services occupations [65]	$12.14	$17.00
Sales support occupations [66]	$11.25	$13.96
Service support and other service occupations, n.e.c. [67]	$11.42	$15.54

Source: Cansim Table 282-0152 Labour force survey estimates (LFS), wages of employees by type of work, National Occupational Classification (NOC), sex, and age group, annual (current dollars)
Note: This table provides a comparison with hourly wages of female workers. In so doing, it leaves to the side the issue of equity of pay between male and females. We do not intend to suggest this is an unimportant problem.

The higher levels of wages for 25-54-year-olds in virtually all of these competing occupations suggest that an occupational ladder, built into a salary scale, may be very important in child care in order to retain workers over time. Unless higher levels of qualifications and related experience are compensated in child care, it is likely that workers will not stay in the sector. We do not have data on employee benefits, but that is an important element of compensation as well.

9.4 COSTS AND FEES IN ONTARIO CHILD CARE CENTRES

We know, then, that compensation will rise in the child care sector as it expands, and further that wage and benefit levels need to rise if the sector is to attract and retain trained and capable staff.[27] But that means that the cost of providing child care services, and the fees that child care operators need to charge, will rise too. This will be a challenge for attempts to improve affordability – a challenge that needs to be managed.

How big is this challenge? By how much will rising compensation levels affect the cost of producing child care services?

We have developed an Excel-type spreadsheet-based model of costs in Ontario child care centres for the purpose of looking at the impact of wages on costs for different age groups of children. The model and results are described in detail in an appendix to this report. We call the model the Ontario Child Care Centre Costs model (OCCCC model). In the paragraphs below, we summarize results from simulations using this model; details on these simulations are available in the appendix.

A costs model is a tool for thinking in an organized way about how changes in one type of cost is likely to affect the overall per-child cost of providing child care to children. The model does a good job of explaining regional and age variations in costs and fees across the province, except that infant fees are generally lower than per-child costs would predict (perhaps because of cross-subsidization) and fees in the North are typically lower than predicted (perhaps because of municipal priorities for expenditure in the North).

What Percent of Costs is made up of Staff Compensation?

[27] Some economists argue that service sectors where there are few opportunities for productivity improvements are, even without the pressures of expansion, particularly likely to have wages rise relative to other industries – this is commonly called Baumol's Cost Disease (Baumol and Bowen, 1966).

It is common to say that staffing costs are 80% of all costs, but that is not exactly true. The OCCCC model suggests that the staff costs percentage varies by age category of children. For infants (when we look at the low end of the median wage range), staff costs are 79%-83% across the regions. For toddlers, staff costs are about 70%-76%. For preschoolers, staff costs are about 62%-69% across the regions.

Of course, if we take the high end of the median wage range the picture is somewhat different, but still similar. For infants (when we look at the high end of the median wage range), staff costs are 82%-87% across the regions. For toddlers, staff costs are 75%-81%. For preschoolers, staff costs are about 69%-75% across the regions.

In other words, staff compensation has less impact on the parental fee for children of preschool age than for infants or toddlers.

What Would Be the Effect of a 10% Rise in Wages?

We can use the costs model to explore some issues about costs. For instance, we can conclude that a 10% rise in wages causes a rise of between 8.0% and 8.6% in the daily costs of infant care (with the higher percentage coming where costs were highest before). For toddler care, the rise of 10% in wages causes a rise of between 7.2% and 8.0% in daily costs. For preschool care, the rise of 10% in wages causes a rise of between 6.3% and 7.4% in daily costs.

What Would Be the Effect of a Rise in Benefits?

A rise in benefits from the assumed 20% of wages to 25% of wages for all staff would raise the cost of infant care by 3.2%-3.6%. Daily costs for toddlers would rise by 2.8%-3.4% relative to current levels. Daily costs for preschool child care would rise by 2.5%-2.9% relative to current levels.

How Expensive Will Child Care Be When Compensation Reaches Its Target Level?

One useful thought-experiment is to imagine what would happen to child care costs when wages and benefits reach some kind of “target” level. Although it is unclear what this level is, we could imagine that, over time, wages for qualified staff will rise to $26.68 per hour with benefits at 25% of the wage package. For unqualified staff, wages could rise to $20 per hour with benefits at 25%. And supervisors’ wages could rise to $35 per hour, with benefits at 25%. I assume here that the WEG continues at $2 per hour for all staff, even for those who have reached $26.68 per hour. Wages, benefits and all other costs are assumed to be the same in all regions.

In this case, the annual cost of infant care would be $29,497 or $113.02 per day. The cost of toddler care would be $21,284 annually or $81.55 per day. The cost of preschool care would be $15,381 or $58.93 per day. These totals are based on assumed occupancy costs (i.e., rent or mortgage carrying costs) of $1,000 per child.

What Would Happen to Costs If All Staff Were Qualified?

Currently, a substantial number of child care staff are unqualified. If all staff were qualified, so that all educators in every room received current wage levels received by qualified staff, we calculate that there would be an increase of between 16.2% and 17.7% in the daily costs of infant care. For toddlers, there would be an increase of between 10.7% and 12.2% in daily costs. For preschoolers, there would be an increase of 8.7% to 10.2%.

A more practical and immediate use of this kind of model is as part of controlling fees in child care services in different municipalities. Most municipalities already have some means of determining whether fees charged to municipalities for subsidized children are reasonable or not. Some, like the City of Toronto and Ottawa, are developing sophisticated spreadsheet models (cousins to the one we have developed) to help operators determine more appropriate fee levels given costs. If municipalities are to play a major role in the capping of fee rises in the future, many will want to develop cost models appropriate to their own situations.

9.5 SOLVING THE STAFF SHORTAGES PROBLEM

The set of questions at the beginning of this chapter asked about compensation packages needed to attract staff, how to create a career ladder – including a salary ladder and how to ensure high quality staff to the field.

The mandate of this project does not extend to a detailed analysis of these issues. A Task Force could be established to review the options and decide on a comprehensive compensation package.

But, because the issue is so central to the success of the project, we thought it would be useful to explore some of the examples from other Canadian jurisdictions to begin that discussion.

In terms of comparative compensation packages to attract staff to the sector, there are certainly past analyses of job descriptions for the purposes of pay equity comparisons that might be a worthwhile starting point. But even within the sector itself, there are examples. Both the municipalities that run public child care programs and the school boards that fund junior and senior kindergarten programs have considerably more attractive compensation packages than most small non-profit centres. The first goal would be to compete with these organizations, or come closer to being able to do that to stop the outflow and high turnover of staff that destabilizes the sector, demoralizes existing staff and has a negative impact on providing a quality program. As we noted above, the higher-paid municipal and college programs are not losing staff to the school boards.

A career path and a salary scale are intrinsically linked. Other Canadian provinces including, PEI, Manitoba and Saskatchewan have adjusted their job titles and descriptions and adopted different qualification levels for these different positions so that staff have opportunities for advancement within the organization. In those provinces, they have introduced the following classifications:

There are three levels in Manitoba:

- Child Care Assistant (CCA); Requires no previous ECE qualifications but required to undertake a 40-hour course of study
- Early Childhood Educator (ECE II). Requires a minimum of two-year ECE diploma or equivalent
- Early Childhood Educator III. Requires two-year ECE diploma or equivalent plus an advanced diploma/certificate or degree.

In Saskatchewan:

- ECE I: Requires 120-hour orientation course or equivalent
- ECE II: Requires a one-year ECE certificate or equivalent
- ECE III: Requires a two-year ECE diploma or equivalent

In PEI:

- Certified Entry: 90 hours of training (three entry-level courses)
- ECE – Certified Level I: 1 year education at college
- ECE II – Certified Level II: 2 year post-secondary education to earn a diploma in early learning and child care
- Director: Post-diploma or degree

Currently Ontario has no requirements for training for unqualified staff and only has one job classification for early childhood educators: the Registered Early Childhood Educator: it requires a two-year early childhood diploma from a recognized community college or equivalent. Supervisors and directors are not required to have additional educational qualifications. Unqualified staff (child care assistants) are not required to have training nor to undertake training as a condition of service.

It is easy to see how a salary scale based on three or four job classifications would permit staff to experience an actual career ladder. Further, the additional requirements for qualifications would improve quality in the programs. So far, Prince Edward Island is the only province that has a mandated salary scale.

This salary grid in PEI provides expectations of gradually rising wage levels. Table 52 provides an example of that salary grid (without suggesting that these rates are appropriate for Ontario). New Brunswick is expected to be announcing a similar development in the coming months.

Table 52
Prince Edward Island Wage Grid

PRINCE EDWARD ISLAND			
Five-year Wage Grid for Early Years Centres			
Position	Average hourly pay		
	pre-September 2010	New scale Year 1	New scale Year 5
Director (level 3) - post diploma	$15.00	$21.00	$23.64
Certified (level 2) – 2-year program	$12.00	$15.00	$16.88
Certified (level 1) – 1-year certificate	$10.00	$13.50	$15.17
Certified Entry - (new)	$10.00	$12.00	$13.50
Special needs assistant	$ 10.21	$ 11.71	TBD

Manitoba has fee caps and encourages operators to adopt the salary scale established by the Manitoba Child Care Association but it is not yet mandatory[28].

Another necessary component of any compensation package should include access to benefits beyond the compulsory minimums. Currently, the Ontario Coalition for Better Child Care offers a benefit package, taken up by approximately 250 centres, as well as the larger governmental, college and unionized organization. In general, benefit packages beyond minimums are rare for Ontario's child care staff.

[28] Details of Manitoba's Salary Scale are published by the Manitoba Child Care Association. Retrieved from http://mccahouse.org/wp-content/uploads/2016/12/Child-Care-MSCGS-2016-2017-.pdf

Many child care centres in Manitoba also opt in to the Association's benefit package. The Manitoba Child Care Association program for their members is designed for early childhood educators, child care assistants, and licensed family child care providers and provides the most comprehensive plan that includes individual or family coverage and allows members to choose the appropriate level of protection whether they are single, have a family, or are integrating coverage with their partner's plan. Child care centres can choose from 3 different plan design options and can have a 3- or 6-month waiting period for new employees to enroll. There is a 6-month waiting period for licensed family child care providers. It also includes a retiree plan for members that have been enrolled for two previous years and are leaving the child care workforce due to retirement.[29]

Another issue to consider is requiring a minimal level of training requirements for Home Child Care providers such as those that exist in other jurisdictions.

Required professional development is another feature of many provinces in Canada. Newfoundland and Labrador, Prince Edward Island, and Nova Scotia require a minimum of 30 hours professional development over three years; B.C. requires that early childhood educators undergo a minimum of 40 hours every five years. In Ontario, credit has to go first to the Ministry of Education for funding professional development opportunities (not yet required) and secondly, to the CMSMs and DSSABs for their emphasis on improving quality by offering professional development opportunities, regular mentoring and other intensive quality assurance measures across the province. Required number of hours, like other provinces and other professions, would be a welcome addition to the ongoing professionalization of the sector.

In view of the numbers of unqualified staff in the system, another question is posed about how to provide additional avenues to train unqualified staff. The Ministry's Upgrade Program whereby educators can apply for a grant towards upgrading through education grants, travel grants and a training allowance, is a good start in addressing the scarcity of RECEs working in child care centres. But more is needed for staff who do not have the capacity to study at the same time as working. Other possible avenues to consider include:

- Introducing an apprenticeship program so unqualified staff do not need to go off site (and not get paid) to do placements; George Brown and Conestoga Colleges are

[29] Manitoba Child Care Association. Salary Grid. Retrieved from: http://mccahouse.org/membership-information/group-benefits

examples of colleges offering a one year certificate program and an apprenticeship program for unqualified staff.

- Providing incentives to colleges to offer more on-line courses and courses with flexible hours that would be accessible to staff in their non-working hours so that it becomes possible for staff to keep their jobs and study at the same time.

- Providing a staff replacement (substitute) grant so that operators may hire supply staff to cover for unqualified staff while attending a recognized college training program in early childhood education. Although this is difficult because of the current lack of supply staff, raising rates for supply staff could be funded and implemented so that supply staff would be attracted to child care centres rather than school boards.

- Directly paying for training of current staff out of general operating grants.

- Providing enhanced funding to francophone and indigenous programs for salaries, benefits and training options. There are at least two francophone child care centres in the province that were newly built but unable to open in September 2017, due to lack of staff.

- Resolving the problem of "split shifts" in before and after programs could resolve the problem of finding staff for these programs.

- Implement an incentive grant of up to $5,000 for ECEs with approved ECE diplomas or degrees who return to work in a non-profit centre after having been away from the sector for at least two consecutive years.

Any such initiatives will require the support of the College of Early Childhood Educators for registering early childhood educators with different qualification levels. Also, the cooperation of the community colleges and the Association of Early Childhood Educators Ontario (AECEO) across the province would be essential to success.

9.6 CONCLUSIONS

The government needs a strategic plan to address workforce issues in order to manage rapid expansion of the sector. This would include establishing target levels of education and training, establishing a ladder of occupations and occupational requirements, creating a salary ladder (or regionally-based salary ladders), determining target compensation packages, and determining what policies will best facilitate recruitment and retention.

Current wage levels are low, even with the addition of a $2 per hour Wage Enhancement Grant. Taking all workers in child care centres together, the median wage level in Ontario (before minimum wage rises) is between $15 and $20 per hour. Unqualified staff generally receive less. Even supervisors' wages are not particularly high across most of the province at $20-$26.68 per hour at the median. Toronto is an exception, with hourly wages for unqualified and qualified program staff and supervisors being higher, at the median, than in the rest of the province.

Current child care wages appear to be competitive with other occupations (outside the child care sector) when workers are 15-24 years of age. However, child care wages are distinctly uncompetitive with hourly wages paid to female workers who are 25-54 years of age in many occupations across the province. Compensation levels need to rise in child care if expansion is going to be possible. In particular, compensation levels need to rise so that the staff that are recruited will be capable, well-qualified staff who will decide to stay in the sector.

CHAPTER 10: TRANSITIONS - HOW TO MANAGE GROWTH IN THE CHILD CARE SYSTEM

Chapter Summary

- This chapter concludes that implementing free child care for preschool-aged children is the immediate priority to improve affordability of licensed child care in Ontario. As physical and staffing capacity are ramped up, increased affordability for other ages should be phased in.

- Ontario is in a good position to take the next steps in expanding the licensed child care system and in making it much more affordable. However, expansion will not be easy; it will bring some very large challenges.

- Any one of the funding reform proposals considered in Chapter 8 would have major impacts on the demand for licensed child care services. With full implementation of either one of the sliding scales modelled, the increase in the number of children 0-4 years of age using licensed care would be nearly 200,000 and for children 0-6 (not yet in school), demand would increase by 275,000 children. Immediately after the announcement of a new funding policy, there is likely to be a substantial shortage of capacity relative to demand, unless the government is able to find a way to phase-in affordability over time.

- There are (at least) five distinct problems of transition (or phase-in) that are important to consider:

    - Physical capacity in licensed centres and homes;

    - Development and management of the expanded system;

    - Shortages of trained qualified staff and even of unqualified staff;

    - How to ration scarce spaces and/or phase-in demand;

    - Maintaining and improving quality during the transition, including the role of for-profit child care providers in the transition and after;

- Even if capacity can be rolled out very quickly, there will be some capacity constraints (i.e., shortages or excess demand) over the next 5 years.

- We are assuming that the CMSM/DSSABs, with their knowledge, enthusiasm and expertise, are the natural developers of the new system. For this, they will need funding for dedicated staff to conduct the necessary planning, capacity search, design of premises for programs (both retrofitted and newly-built) navigating through local council policies, overseeing construction, finishing, equipping and contracting new turn-key operations. They will also need clear targets and timelines with both capital and guaranteed operating funding to anchor these projects.

- ❖ The management capacity in the sector is in some cases weak. The majority of child care centres in Ontario are managed by small- to medium-sized non-profit boards of directors, usually composed of parents. Many directors of programs have little management expertise or management qualifications.

- ❖ We recommend that existing centres and home agencies be required to apply to be designated child care services (centres and home networks) to provide free preschool child care services and receive substantial public funding from government. Existing centres and home child care agencies would sign contracts agreeing on provision of services, conditions of service, rights to inspect etc. in exchange for base-funding from municipalities for services provided.

- ❖ As demand expands, operators will struggle to find enough qualified staff, or indeed enough staff at all. Compensation will have to rise in order to attract sufficient new staff. The province (and municipalities) have a strong interest in structuring higher compensation to provide incentives for continuous upgrading, apprenticeships, basic training for unqualified staff, and incentives for qualified staff to make licensed child care into a career choice.

- ❖ There are a number of ways of rationing spaces when there is excess demand (by geography, by age of child, by income group, etc.) but rationing (i.e., allocating services in a managed way) will be easier if access to dramatically improved affordability can be phased-in. Careful management of the timing of funding reforms could help with excess demand issues.

- ❖ In earlier chapters, we have concluded that the two sliding scale policy alternatives – a $40K-$240K sliding scale, or free child care for preschool children plus a $50K-$150K sliding scale – are better at reducing barriers to employment and improving affordability than either the flat fee ($20 per day) or tax credit approach. The free child care for preschool children policy has a distinct advantage – it would be easier to phase in. The Government of Ontario could decide, as an immediate priority, to make preschool-aged child care free for Ontario families. Preschool-aged child care is already very popular; most families seek out good quality group experiences for their children in the year or so before kindergarten. Making child care free would help all families with child care affordability in the time immediately before kindergarten.

- ❖ Starting with children of preschool age makes sense in other ways. There is already a large licensed capacity of child care available to serve children of this age, so shortages would be less acute than for other age groups. Because the required staff: child ratio for preschoolers is 1:8, expansion of services requires fewer new staff than if, for instance, expansion was concentrated among children of toddler age, where the staff: child ratio is 1:5. It will take time and effort to ramp up both physical capacity and staff capacity; the efforts will bear more fruit more quickly for children of preschool age.

- ❖ During the phase-in period for free preschool child care, the existing child care subsidy system would continue for children younger or older than preschool. As licensed capacity and staffing capacity increase, the Government should increase funding available for subsidy, and loosen some of the restrictive regulations on activity requirements so that more funding is available to improve affordability, particularly for infants and toddlers.

- ❖ Making preschool child care free will require that licensed capacity for preschool-aged children be expanded rapidly. The development and licensing of this expansion needs to be carefully managed by municipalities, so that new capacity for infants, toddlers and other ages is incorporated into newly built or renovated centres. As infant and toddler capacity is expanded, the Ministry of Education can increase funding and loosen rules on subsidy so that more families are able to afford this child care. When there is sufficient physical and staff capacity, the Government can amend legislation to provide a $50K-$150K sliding scale of funding as a right to parents.

- ❖ It is highly problematic to rely on the for-profit sector as a major provider of services if you are seeking to build a quality service, and what is essentially a public service. The Ministry of Education has made it clear that coming expansion will be focused in the not-for-profit and public sectors. This is appropriate, but may be difficult.

This chapter considers problems of the transition from the current system of child care services to one that is much more affordable. We conclude that implementing free child care for preschool-aged children is the immediate priority to improve affordability of licensed child care in Ontario. As physical and staffing capacity are ramped up, increased affordability for other ages should be phased in.

Ontario already has a large and generally well-managed system of child care services and it provides substantial amounts of funding, through municipalities, to families who are able to access the subsidy system. Ontario also provides funds directly for wage enhancement and funding, through municipalities, for operating grants, special needs resourcing and a variety of other purposes.

Since moving into the Ministry of Education and before, Ontario has developed many aspects of its ability to manage the child care system. There is a new Child Care and Early Years Act, clarifying roles, responsibilities and regulation. There are clear objectives for the development of child care in the province. There is a professional college of Early Childhood Educators. There is a 5-year plan and financing for expansion of capacity for children 0-4. Data on services, subsidies, capacity and enrollment (amongst others) is now regularly collected and its fitness for purpose is improving (a dramatic change from the last 30 years). On top of that, across Ontario, there is a large group of skilled and knowledgeable administrators and planners, many of them at the municipal level, who know the issues of child care very well and are dedicated to improving services and funding for families.

All these are very important strengths. Ontario is in a good position to take the next steps in expanding the licensed child care system and in making it much more affordable. However, expansion will not be easy and it will bring some very large challenges. In our opinion, as discussed in Chapter 6, Quebec provides a roadmap of the challenges ahead. However, Ontario will want to plan its trip much more carefully than did Quebec if it wants the eventual outcome to be an affordable system of good quality child care.

Chapter 8 on the effects of different funding models presented five funding approaches to improve child care affordability, in addition to the Base Case. As shown in the table below, most of these efforts to make child care affordable imply substantial increases in licensed capacity. Even in the most modest of these, in which subsidy income limits are not changed but funding becomes available as a right, the amount of new capacity needed for children 0-4 is 77,275 spaces and for children 0-6 is just over 100,000 spaces. In the most dramatic of the options simulated, the increase in the number of children 0-4 years of age using licensed care would be nearly 200,000 and for children 0-6 (not yet in school), demand would increase by over 285,000 children.

That means that immediately after the announcement of a new funding policy, there is likely to be a dramatic shortage of capacity relative to demand, unless the government is able to find a way to phase-in affordability over time.

Table 53
Number of Additional Child Care Spaces Needed for Full Implementation of Alternative Child Care Funding Policies

	A. Base Case – Current Funding	B. Fully-funded subsidy system (sliding scale)	C. Sliding Scale - $40K - $240K	D. No charge for 2½-4-year-old children, plus $50K-$150K sliding scale	E. Operating Grant to $20 per day, plus fully-funded subsidy system with turning point at $40K	F. Tax Credit for Child Care Expenses, add on top of existing subsidy system
Description of Funding Reform	No change. Current subsidy system, plus existing wage and operating grants.	Keep current income limits in subsidy system but provide assistance to all eligible with no stigma, flexible rules, and adequate supply of funding and services.	Replace existing subsidy system with new sliding scale of payments for 0-6 years. Families earning less than $40K free. Above that income, families pay additional 4% of full fee for every extra $10K of income to $240K after which everyone pays 80% of full fee.	Use base funding to reduce fee for preschool-aged children to zero. Replace existing subsidy system with sliding scale. Families earning less than $50K free. Percent of fee paid as income rises to $150K, max at 80% of full fee.	Reduce full-fee for infants, toddlers, preschoolers and kindergarten children to $20 per day per child. Replace subsidy system with fully-funded, flexible-rules subsidy system with families earning less than $40K free.	Tax credit for child care expenses, provides a sliding scale of fee payments, but the sliding scale of the existing subsidy system is also maintained.
Additional Capacity Needed for Children 0-4 Years	n.a.	77,275	197,985	195,470	186,760	137,955
Additional Capacity Needed for Children 0-6 Years	n.a.	104,525	287,762	276,455	266,785	202,825

In fact, there are (at least) five distinct problems of transition (or phase-in) that are important to consider:

- Physical capacity in licensed centres and homes;
- Development and management of the expanded system;
- Shortages of trained qualified staff and even of unqualified staff;
- How to ration scarce spaces and/or phase-in demand;
- Maintaining and improving quality during the transition, including the role of for-profit child care providers in the transition and after.

10.1 PHYSICAL CAPACITY

The good news is that the Province, with the usually enthusiastic support of the municipalities, has already begun a capital expansion plan focused on services for children 0-4. The plan is to serve 100,000 more children within the next 5 years. However, this capital expansion plan has moved slowly so far, partly because it is difficult to spend the money within the currently allocated timelines, partly because of difficulties finding sufficient space in schools. And, as you can see in the table above, nearly all of the simulated policy changes would require more than 100,000 new spaces for children 0-4, and most would require more than 200,000 spaces for children 0-6. So even if capacity can be rolled out very quickly, there will be capacity constraints (i.e., shortages or excess demand) over the next 5 years. We have extensive discussion of capacity expansion issues in the chapter on municipalities, and a number of recommendations in the chapter dedicated to recommendations.

10.2 DEVELOPMENT AND MANAGEMENT OF THE EXPANDED SYSTEM

Service expansion requires a number of aspects of service delivery to grow at the same time. We assume that the CMSM/DSSABs, with their knowledge, enthusiasm and expertise, are the natural developers of an expanded system at the local level. For this, they will need funding for dedicated staff to conduct the necessary planning, capacity search, design of premises for programs (both retrofitted and newly built) and for navigating through local council policies, overseeing construction, finishing, equipping and contracting new turn-key operations. Municipalities will also need clear targets and timelines with both capital and guaranteed operating funding to anchor these projects.

The management capacity in the sector is in some cases weak. The majority of child care centres in Ontario are managed by small- to medium-sized non-profit boards of directors, usually composed of parents. Many directors of programs have little management expertise or management qualifications and this may leave an expanded system with ability gaps. It may be necessary to find new models for the management and governance of child care programs. The CMSM/DSSABs should be given support to choose the best models possible. They may decide to develop and expand municipally-operated services or municipal management supports. They may decide to create an independent management company to handle or support some functions such as financial administration, payroll, human resources, and purchasing; or they may simply continue working with the existing non-profit boards.

Both Quebec and Prince Edward Island have enabled the creation of new institutions to deliver services that are more heavily subsidized and more publicly managed than in the past. These were called Early Childhood Centres in Quebec and Early Years Centres in P.E.I. Prince Edward Island's initiative was described this way in Chapter 7:

> *It reorganized existing licensed child care programs into a publicly-managed network of Early Years Centres and Infant Homes. This reorganization resulted in the regulation of parent fees, wage enhancements based on a common salary scale, training and a career ladder for staff as well as sector planning, professional development and management support to programs. Centres transitioning to Early Years Centres were required to cap fee increases, meet the criteria of being an Early Years Centre and provide financial information to allow the Department to assess their need for base funding.*
>
> *Existing centres were given the option to apply to become an Early Years Centre (EYC), remain a regulated private non-EYC centre or retire their license (with compensation).*

Many centres that have applied to meet the Early Years Centre criteria in P.E.I. have not yet met all of the quality, staffing and other criteria. Centres are transitioning over time, as is appropriate. What this new status enforces, however, is a recognition that, in exchange for very substantial or complete base-funding to child care centres and homes, existing child care services must "up their game". Quality must be enhanced, staffing must be stabilized and reasonably compensated, fees and costs must be controlled. Services must operate in ways that are financially transparent and open to regular quality evaluation. It is a recognition that child care is a public service, even though delivered by institutions that are not necessarily public.

We recommend that existing centres and home agencies that wish to be funded to provide free preschool child care should be required to apply to be designated child care services (centres and home networks) to provide these reduced-fee services and receive substantial public funding from government. Existing centres and home child care agencies would sign contracts agreeing on provision of services, conditions of service, rights to inspect, and so on, in exchange for payments from municipalities for services provided.

10.3 STAFF SHORTAGES

Staff shortages mirror shortages of physical capacity. As demand expands, child care service operators will struggle to find enough qualified staff, or indeed enough staff at all. As argued in Chapter 9 on workforce and cost issues, compensation will have to rise in order to attract sufficient new staff. However, unconditional equal percentage increases for all qualification levels may not be the best way to do this. The province (and municipalities) have a strong interest in structuring higher compensation to provide incentives for continuous upgrading, apprenticeships, basic training for unqualified staff, and incentives for qualified staff to make licensed child care a career choice.

When infant capacity expands, it demands substantially more staff (per child served) than care for older children. Increasing funding for preschool age children, as a first priority, could make it easier to phase-in increased staffing and new staffing policies.

Issues of compensation are discussed in Chapter 9 on workforce issues, as well as in Chapter 3 on the municipal role in managing the child care system. There are a series of related recommendations in Chapter 11 on Recommendations.

10.4 RATIONING AND PHASING-IN

It's not easy to phase-in demand. If the government is going to make licensed child care more affordable (lower the effective fee levels for families), a logical first step would seem to be to apply those lower fees (whether through a sliding scale, the provision of free services, or a $20 flat fee, for instance) to all those children currently in licensed services. However, that would instantly mean line-ups to get into existing services, long waiting lists and lots of pressure on Supervisors for each child to be given the next available space. Most of the families currently in child care who don't get subsidy are middle to high-income families. They would, therefore, be the first to receive financial assistance. Most of the families that move very quickly to get on centre waiting lists are likely to be middle class families. Certainly, that is what happened in Quebec. Lower-income families are likely to be disadvantaged in this contest, if there is no deliberate rationing through a managed waiting list system, of the potential demand for child care. Management of the waiting list should ensure that all income and social groups get access to new and existing services as spaces become available.

There are a number of ways of rationing (by geography, by age of child, by income group, etc.) but rationing (i.e., allocating services in a managed way) will be easier if access to dramatically improved affordability can be phased-in. The tables below suggest that careful management of the timing of funding reforms could help with excess demand issues.

10.4.1 Phasing-In Free Preschool Child Care

We concluded in Chapter 8 that the two sliding scale policy alternatives – a $40K-$240K sliding scale, or free child care for preschool children plus a $50K-$150K sliding scale – are better at reducing barriers to employment and have better results in improving affordability than either the flat fee ($20 per day) or tax credit approach. The policy of free child care for preschool children plus a sliding scale is preferable at very low levels of income to the $40K-$240K sliding scale. However, the free child care for preschool children policy has another advantage – it would be easier to phase-in. The Government of Ontario could decide, as an immediate priority, to make preschool-aged child care free for Ontario families. Preschool-aged child care is already very popular; most families seek out good quality group experiences for their children in the year or so before kindergarten. Making child care free would help all families with child care affordability in the time immediately before kindergarten.

Starting with preschool age makes sense in other ways. There is already a large licensed capacity of child care available to serve children of this age, so shortages would be less acute than for other age groups. Because the required staff: child ratio for preschoolers is 1:8, expansion of services requires fewer new staff than if, for instance, expansion was concentrated among children of toddler age, where the staff: child ratio is 1:5. It will take time and effort to ramp up both physical capacity and staff capacity; the efforts will bear more fruit more quickly for children of preschool age.

Affordability for all families would be improved, because all children are of preschool age at some point. However, affordability problems are acute at infant and toddler ages. During the phase-in period for free preschool child care, the existing child care subsidy system would continue for children younger or older than preschool. The Government should gradually increase funding available for subsidy, and loosen some of the restrictive regulations on activity requirements so that more funding is available, particularly for infants and toddlers.

As physical capacity for children of preschool age is expanded, the province and municipalities should collaborate to ensure that newly built or renovated centres include increased licensed capacity for infants and toddlers. The province and municipalities have licensing, funding and regulatory powers that will allow them to achieve this aim. As licensed capacity for infants and toddlers grows, the province should increase funding available for the subsidy system so that these spaces become more affordable for families.

At some point, there will be sufficient physical and staff capacity that the Government could change legislation to provide funding to families through a $50K-$150K sliding scale as a right. The tables below look at the effects of phasing-in this policy piece-by-piece. The tables have a similar form to those provided in the second part of the chapter on evidence about alternative funding models; they are based on policy simulations performed with the Ontario Child Care Demand and Employment Simulation Model. As before, the tables show projected values of child care demand, parental employment, measures of affordability, net child care costs and governmental costs and revenues.

Simulation D2 in the tables below looks at combining free child care for children of preschool age with renovation of the existing subsidy system to give full-funding of subsidies to all eligible families so that these subsidies are available as a right. Full-funding for subsidies is an interim alternative to a $50K-$150K sliding scale. Simulation D3 models free child care for children of preschool age combined with a simple continuation of the existing Ontario subsidy system for families with children of other ages.

These alternatives are not offered because they are ultimately preferable to free preschool child care plus a $50K-$150K sliding scale. They are offered as potential ways of phasing-in that option. In other words, these may be waystations along the road to fully affordable child care, recognizing the difficulties caused by moving immediately to a completely new and more generous funding system.

The results in Table 58 (in comparison with those in Table 53) give a sense of what we mean. The additional demand for spaces for children 0-4 would be nearly 200,000 with a policy of free child care for preschool children combined with a $50K-$150K sliding scale (simulation D). However, with simulation D2, this additional 0-4 demand would be about 133,000. With simulation D3, this extra demand would be about 83,000. So, if this were the chosen direction for improving affordability, the Ontario government could delay implementation of the $50K-$150K sliding scale until sufficient physical capacity for infants and toddlers and sufficient trained staff were available.

The Ministry of Education should implement free child care for children of preschool age on a very short time schedule (as was true with full-day kindergarten). The transition to a $50K-$150K sliding scale would be more gradual. In the near term, the existing Ontario subsidy system would be retained. As more capacity for preschool children is built over the next few years, these services will also be required to expand capacity for infants and toddlers. As physical and staffing capacity expand, the existing subsidy system can be funded more generously to improve affordability of infant and toddler care. At a certain point, the expansion of capacity and staff would be sufficient to get rid of the subsidy system and replace it with an "as-of-right" sliding scale of payments. Simulations D3 and D2 on Tables 53-57 in comparison to simulation D on Tables 41-44 measure the implications of this kind of phase-in.

Table 54
Demand and Employment – Effects of Phasing-In Free Preschool Child Care

	A. Base Case – Current Funding	D2. No charge for 2½-4-year-old children, plus fully-funded, flexible-rules subsidy system	D3. No charge for 2½-4-year-old children, maintain subsidy system
Description of Funding Reform	No change. Current subsidy system, plus existing wage and operating grants.	Use base funding to reduce fee for preschool-aged children to zero. Keep current income limits in subsidy system but provide assistance to all eligible with no stigma, and more flexible rules.	Use base funding to reduce fee for preschool-aged children to zero. Keep current subsidy system.
	Demand for Licensed Child Care – Number of Children		
Infant Demand	12,155	40,795	17,850
Toddler Demand	40,690	64,685	48,185
Preschool Demand	93,830	174,705	163,470
Kindergarten (B/A) Demand	91,725	130,725	109,150
	Number of Main Caregiving Parents Employed or Not – Families with Children 0-6 Years of Age		
Full-time employment (# of main caregiving parents)	331,045	407,045	371,895
Part-time employment	116,940	82,420	97,390
Not employed	158,515	115,535	137,215

Table 55
Affordability Measures - Effects of Phasing-In Free Preschool Child Care

	A. Base Case – Current Funding	D2. No charge for 2½-4-year-old children, plus fully-funded, flexible-rules subsidy system	D3. No charge for 2½-4-year-old children, maintain subsidy system
	Number of Families with Children 0-4 Years of Age in Each Category of Affordability		
Affordable – measured by FIAM (families with children 0-4)	85,495	296,795	208,650
Unaffordable – measured by FIAM (0-4)	156,880	140,165	112,735
Completely Unaffordable – measured by FIAM (0-4)	207,580	12,770	128,560
	Overall Average Level of Family and Caregiving Parent Affordability Measures for Families with Children 0-4 Years		
Average Value of Family Income Affordability Measure for families with children 0-4	23.5%	6.9%	15.3%
Average Value of Caregiving Parent Affordability Measure for families with children 0-4	67.3%	23.2%	44.3%
	Average Level of Family Income Affordability Measure for Lone Parent and Two-Parent Families with Children 0-6 Years		
Average Value of FIAM for lone parent families with children 0-6	25.1%	2.0%	15.1%
Average Value of FIAM for couple families with children 0-6	19.9%	8.3%	14.1%
	Average Level of FIAM by Family Income for Families with Children 0-6 Years		
Average Value of FIAM – families with < $50K family income	30.8%	2.1%	20.5%
Average Value of FIAM – families with $50K-$100K of family income	21.2%	9.8%	15.1%
Average Value of FIAM – families with$100K or more of family income	12.7%	8.5%	8.8%

Table 56
Net Child Care Costs – Effects of Phasing-In Free Preschool Child Care

	A. Base Case – Current Funding	D2. No charge for 2½-4-year-old children, plus fully-funded, flexible-rules subsidy system	D3. No charge for 2½-4-year-old children, maintain subsidy system
Average Net Annual Cost of Child Care - All Parents	$13,395	$6,005	$9,255
	Average Net Child Care Cost for Lone-Parent and Two-Parent Families – with Children 0-6 Years		
Average Net Cost – Lone Parents	$9,100	$1,050	$5,640
Average Net Cost - Couples	$14,325	$7,080	$10,040
	Average Net Child Care Cost by Level of Family Income – Children 0-6 Years		
Average Net Cost – Family income < $50K	$11,975	$920	$8,100
Average Net Cost – Family income $50K - $100K	$13,935	$6,590	$9,840
Average Net Cost – Family Income $100K and over	$13,960	$9,350	$9,570
	Average Net Child Care Cost by Age of Youngest Child – Families with Children 0-6 Years		
Average Net Cost – Youngest Child Infant	$20,175	$8,625	$17,150
Average Net Cost – Youngest Child Toddler	$14,550	$8,465	$11,830
Average Net Cost – Youngest Child Preschool	$11,160	$1,685	$2,020
Average Net Cost – Youngest Child JK	$8,470	$6,400	$7,910
Average Net Cost – Youngest Child SK	$8,630	$6,670	$7,980

Table 57
Costs and Revenues – Effects of Phasing-In Free Preschool Child Care

	A. Base Case – Current Funding	D2. No charge for 2½-4-year-old children, plus fully-funded, flexible-rules subsidy system	D3. No charge for 2½-4-year-old children, maintain subsidy system
Additional Gross Funding Cost to Government	$0	$2,600m	$1,610m
Total Tax Revenue, Net of Benefits	$6,012m	$6,730m	$6,520m
Federal Tax Revenue, Net of Benefits	$4,258m	$4,820m	$4,645m
Ontario Tax Revenue, Net of Benefits	$1,763m	$1,910m	$1,875m
Parents' Contribution to Cost of Licensed Child Care	$2,053m	$1,665m	$1,640m

Table 58
Number of Additional Child Care Spaces Needed as New Funding Policies Are Phased-In

	A. Base Case – Current Funding	D2. No charge for 2½-4-year-old children, plus fully-funded, flexible-rules subsidy system	D3. No charge for 2½-4-year-old children, maintain subsidy system
Description of Funding Reform	No change. Current subsidy system, plus existing wage and operating grants.	Use base funding to reduce fee for preschool-aged children to zero. Keep current income limits in subsidy system but provide assistance to all eligible with no stigma, and more flexible rules.	Use base funding to reduce fee for preschool-aged children to zero. Keep current subsidy system.
Additional Capacity Needed for Children 0-4 Years of Age	n.a.	133,510	82,830
Additional Capacity Needed for Children 0-6 Years of Age	n.a.	172,510	100,255

There can, of course, be problems with this kind of phased-in funding approach. Some families will not immediately receive the financial assistance they need. It is useful to remember that, since all children are of preschool age at some point in their lives, moving right away to make preschool-aged child care free of charge will address affordability for every family, even though it will leave some other child care affordability problems to be handled over time. Further, if the supply of licensed child care spaces is expanded reasonably quickly and funding is adjusted in tandem, phasing-in funding reforms would be much preferable to the chaos of immediate full funding reform.

10.5 MAINTAINING QUALITY AND THE ROLE OF THE FOR-PROFIT SECTOR

The lessons from Quebec discussed in Chapter 6 appear to confirm what much other research has already argued. It is highly problematic to rely on the for-profit sector as a major provider of services if you are seeking to build a quality service, and what is essentially a public service.

The Ministry of Education has made it clear that coming expansion will be focused in the not-for-profit and public sectors (Ontario Ministry of Education, 2017). Under the most recent Management and Funding Guideline for CMSM/DSSABs, in a discussion of enhanced accountability measures, the Ministry makes clear the prioritization of not-for-profit services:

> *"The ministry is taking steps to further prioritize provincial funding to the non-profit child care sector, and support the effective use of ministry funding, by working closely with CMSMs and DSSABs to maintain funding allocated to for-profit child care at current levels. Beginning in 2017, a For Profit Maximum Percentage Threshold has been added to the Budget Schedule of the service agreement to support CMSM and DSSABs with maintaining existing maximum expenditure levels to for-profit entities. The threshold was determined based on past expenditures that each CMSM and DSSAB directed towards for-profit programs in the most recently reviewed financial statements submission. This overall threshold applies to base funding, the child care expansion plan and ELCC funding. The government recognizes and values the important role of both non-profit and profit licensees in providing accessible quality child care services for children and families in Ontario. We also recognize that a number of communities in Ontario are served by for-profit licensees which support access to licensed child care; therefore 2017 will be a transition year. The ministry will work with those CMSMs and DSSABs that do not maintain or reduce their thresholds in 2017 and will consider financial penalties for exceeding for-profit thresholds in the future."* (Ontario Ministry of Education, 2017)

This is causing difficulty for some municipalities, but it has been embraced enthusiastically by the large majority. Many municipalities already have passed council resolutions mandating all or nearly all of any new child care development to occur in the not-for-profit and public sectors.

There are good reasons for this directive. The fundamental objective of for-profit institutions is to make profit for owners and shareholders. In a situation, where it is difficult to perceive and measure quality, it is difficult for consumers to hold producers to account using market mechanisms. There is overwhelming evidence from many countries that market mechanisms are completely inadequate to foster and promote good quality early learning and child care services.

What is needed are producers of child care whose primary objective is the provision of quality experiences for children, producers who are willing to make constant quality improvement their watchword. These producers need to be financially transparent and open (because government will need to monitor costs). These producers need to have as a key objective making early learning and child care into a public service at good quality and affordable for all. Although there will be a few small for-profit providers willing to accept the necessary conditions, most will not. In particular, large shareholder-run corporations anxious to cut staff compensation and cut corners on quality cannot be a growing component of Ontario's expanding system of early learning and child care services.

However, this can create problems for transition to a much larger and more affordable child care system in Ontario. For-profit operators, and especially corporate chains of child care services, will be vocal in their desire and willingness to build new services quickly if the government announces an affordability plan with substantial base funding of child care services. Yet, if the Government relies on for-profit expansion, it will largely lose control over the evolution of and quality of the early learning and child care system.

There will be substantial downward pressures on quality as the child care sector expands rapidly, even if it is dominated by not-for-profit and public providers. There will be many new staff with little experience, there will be shortages of trained staff, and there will be inadequate numbers of experienced educators to properly mentor new staff. In this circumstance, to rely on providers whose fundamental objectives do not align well with quality promotion would be a serious mistake.

10.6 CONCLUSIONS

Ontario has an excellent basis for the development and expansion of its child care system. The Ontario Government has dramatically updated legislation and regulations, has expanded funding and capacity, and has created the College of Early Childhood Educators. The well-developed role and talents of municipalities is a big advantage. There are a large number of dedicated staff and operators across the province, most of them in the not-for-profit and public sectors.

Despite these advantages, dramatically increasing affordability will not be easy. When affordability of child care increases, our models and common knowledge tell us that the demand will increase dramatically. Any policy that fully implements affordable child care immediately will cause a flood of excess demand for licensed services.

For all four of the main alternative policies simulated to improve affordability, demand for licensed child care for children 0-6 would nearly double or more than double – increasing by more than 200,000 children. Demand for services for children 0-4 would double or more. Capacity – both physical and staffing capacity – could not instantly expand by these amounts to meet this demand.

Experiences in Quebec can educate us about the likely effects of this excess demand, if it is not managed properly:

- Middle- and higher-income families getting disproportionate access to spaces and better-quality spaces;
- Excessive reliance on family home child care because it is easier to expand;
- Excessive reliance on lower-quality for-profit child care services;
- Public funding of informal child care through a tax credit scheme.

Even if capacity can be rolled out very quickly, there will be some capacity constraints over the next five years. This implies that the Government needs to address a number of challenges during this phase-in period. These challenges include how to develop new physical capacity, management capacity, and how to recruit and retain large numbers of well-qualified staff. We suggest that municipalities will have a large role in developing new capacity. We suggest trying out new approaches to improving management and administration of child care services. We suggest that compensation will have to rise to attract and retain staff. In fact, an entire workforce strategy is necessary to deal with issues of an occupational ladder, salary scale, and other workforce issues. It is important that compensation packages encourage continuous upgrading of child care staff abilities and making licensed child care into a career choice.

We recommend that existing centres and home agencies be required to apply to be designated child care services (centres and home networks) to provide free preschool child care and receive substantial public funding from government. Existing centres and home child care agencies would sign contracts agreeing on provision of services, conditions of service, rights to inspect etc. in exchange for payments from municipalities for services provided.

Based on the evidence presented in other chapters as well as this one, we favour funding free child care for preschool-aged children combined with a sliding scale to improved affordability at other ages. Given the importance of managing the challenges posed by excess demand for services, we recommend moving immediately on affordability for children of preschool age, and later on the sliding scale for other ages. This will reduce the pressures on physical and staff capacity and allow for both of these challenges to be solved over time. Since all children are of preschool age at some point, this will address affordability for every family, even though it will leave some child care affordability problems to be handled over time.

CHAPTER 11: RECOMMENDATIONS

The following recommendations derive from economic and statistical analysis and economic modelling, from interviews with municipal representatives and from knowledge of the workings and issues in Ontario's child care sector. Some of these recommendations are for immediate or near-term implication. Some cannot be implemented immediately because of capacity and staff shortages relative to anticipated increased demand.

MAIN RECOMMENDATIONS

1. We recommend that the Government of Ontario announce a series of funding reforms over the next 5 years to dramatically improve the affordability of licensed child care in the province.

Free Centre and Home Child Care for Children of Preschool Age

2. Our primary recommendation is that the Government of Ontario should begin within the next number of months the implementation of free child care in centres and homes for children of preschool age (2½ years of age to kindergarten age). Making child care free for preschool children will allow children from families of all backgrounds to have positive and enjoyable experiences in quality licensed services in the period immediately before kindergarten. Further, this will significantly reduce barriers to employment and other activities for parents.

   There is already a substantial capacity for preschool-aged child care, but investment in additional capacity should be a top priority. There are shortages of qualified staff, so measures will need to be quickly adopted that increase the supply of early childhood educators.

Expanded Child Care Subsidies and then a $50K-$150K Sliding Scale of Fees

3. In the near-term, for children of other ages, the Government of Ontario should continue, and fund more generously, the existing child care subsidy system. Municipalities should be encouraged to advertise the availability of subsidy assistance to middle-income families. The province should change legislation and regulations as necessary to loosen activity requirements associated with child care subsidy to allow children continuous access to services even when parental employment is intermittent.

4. When additional licensed child care capacity is available and qualified staff shortages have been reduced or eliminated, the child care subsidy system should be replaced with a sliding scale of payments (such as the $50K-$150K sliding scale described in the body of the report) to make licensed child care affordable for children of other ages. Family income would determine the percent of full fee a family would have to pay. For children other than preschool age, families with earnings less than $50,000 would pay nothing; families earning over $150,000 will pay 80% of the full fee. In between, families pay an increasing percentage as family income rises. We call this a $50K-$150K sliding scale.

Implementation of Funding Reforms

5. Sliding scales of payment are based on family income, a matter which many families wish to keep private and confidential from the child care service which their children attend. When the sliding scale of payments is implemented, there should be a province-wide internet portal that allows families to determine how much fee they would have to pay, and to request/reserve a child care spot and to find out much information about the choice of services available. Actual billing and payment collection (e.g., direct debits) could occur at either the provincial or municipal (CMSM/DSSAB) level.

6. We recommend that the new sliding scale of payments should be interpreted so that there is additional fee relief for families with multiple children. Various countries reduce fees by one-third to one-half for second children, and more for additional children.

7. We recommend that there should not, eventually, be an activity requirement (e.g., paid work, looking for paid work, training, education) for attending child care services or for receiving the benefits of public funding for child care. As the new system of funding is being phased-in, there may be supply shortages. If there are shortages, it is legitimate that "activity" be one of the criteria by which a waiting list is managed. Even when there are shortages, we would recommend that families earning less than $40,000 annually should not have an activity requirement imposed as a condition of their children's access to child care.

8. Licensed child care services that are authorized to and have signed a contract to deliver free preschool child care or to provide services at reduced-fees on a sliding scale will have all legitimate costs of provision for child care services provided paid directly (and in advance) by the municipality in which they are located. The child care service will be accountable for providing records of services provided to each child. The province will compensate municipalities (largely in advance) for these supply-side payments.

9. We recommend that municipal governments develop and adopt methods of determining the legitimate costs of services to calculate the amount of base funding necessary to pay child care services for the services delivered to families. A number of municipalities already have developed "benchmarking tools" used to facilitate the assessment of the legitimate costs of providing services. Typically, these are currently used to determine the amount charged for services to subsidized families. The provincial government should mandate the use of these assessment tools and help municipalities to develop a unified approach to determining legitimate costs.

10. We recommend that the province develop and maintain expertise in studying the costs of service provision (e.g., compensation, utilities, occupancy costs, food and nutrition, supplies, administration, etc.), the factors affecting the cost of service provision, and the factors affecting the costs of each key element affecting costs. Initially, this would focus on the costs of preschool-aged care, but would broaden to all ages as funding expands. There will be a natural tendency for costs to rise as a new system of funding is introduced and implemented. Government will want to determine whether that upward pressure on costs is legitimate, and identify and implement methods of reducing relevant supply constraints.

11. We recommend that the province work with municipalities and sector representatives to establish reasonable levels of fee caps for services, as a new system of sliding-scale payments is introduced. These fee caps may be regional to reflect the local nature of some costs and the rationale for these fee caps should be clearly documented. Fee caps should be revised from time to time.

12. Management abilities are weak in some child care services. We recommend that municipalities should consider facilitating the establishment of separate local management companies that are able to undertake both the development of new programs, and/or organize back-end functions such as financial management, human resources management, payroll and purchasing. These companies would provide services to individual child care programs for a fee. Municipalities should oversee the work of these management companies.

New Contracts and New Institutions

13. This new funding system requires a new contract with child care services that will be providing reduced-fee or free services. Government will be providing the lion's share of the funds and needs to ensure that services will be of high quality, will be responsive to parental needs, and will welcome children from diverse backgrounds in their community. Services will have to be willing to be completely financially transparent,

open to regular evaluations of quality, and will have substantial and meaningful parent control or influence.

We recommend that existing centres and home agencies be required to apply to have the right to provide these free or reduced-fee services and receive substantial public funding from government. Existing centres and home child care agencies would sign contracts agreeing on provision of services, conditions of service, rights to inspect etc. in exchange for payments from municipalities for services provided. In a similar situation in PEI, centres with such contracts were designated as Early Years Centres as a mark of recognition of this new status. Ontario would have to develop a similar designation, as a signal of quality and regulation to parents.

These contracts would itemize conditions to which centres and home agencies would agree in exchange for regular and substantial base funding. These contracts would cover issues of financial viability, transparency about costs and finances, and participation in regular evaluations and upgrades of quality. These contracts would itemize agreements to work towards compensating staff according to agreed wage and benefit scales, and establishing governance mechanisms that ensure very substantial parental participation or control. The contracts would ensure that services were in concert with identified municipally-determined needs for service development, and these centres and home agencies would otherwise act to promote public and parental interests in provision of child care services for children.

14. We recommend that services that do not wish to become designated Child Care Centres or Home Agencies be permitted to continue to operate under current rules, regulations and conditions. All existing services with purchase-of-service agreements will be encouraged to sign these contracts and transform themselves into designated Child Care Centres or Home Agencies.

15. The Ministry of Education, through its delegated authority, should offer the following options to the existing commercial child care programs in Ontario:

    - to remain a commercial child care centre charging parent fees to full-fee parents and with government support through existing purchase-of-service agreements to take fee-assisted children;

    - to apply to become a designated Child Care Centre. This means that the centres must agree to accountability measures, agree to ensure all staff have minimum qualifications, participate in mandatory professional development, pay salaries according to the salary scale and cap the fees according to the service system manager's specifications. In exchange, they would receive base funding payments from the local municipality covering the legitimate costs of operation.

- to sell their business to an operator willing to purchase the assets, with approval of the Ministry of Education and the local municipality. Local municipalities might become purchasers of assets as part of their development role.

Capital Expansion

16. We recommend that the Ministry of Education make plans for a faster pace of capital expansion than foreseen in the current Capital Expansion Program.

17. Capital expansion will have to be rapid in order to accommodate additional demand. Most centres and operators involved in child care provision do not have expertise in many of the tasks associated with capital expansion: hiring architects and builders, designing child care facilities, negotiating with municipal planning authorities, organizing and obtaining financing, and so on. We recommend that the Ministry encourage CMSM/DSSABs to become much more active in the development process, in some cases becoming effective development agencies for the stabilization and expansion of the early learning and child care system. This would include finding locations and constructing new facilities and tendering to choose operators for newly constructed child care centres. It would also include various different ways of assisting existing service providers with renovations and expansions. Municipalities will need an assured funding stream to take on this role.

18. We recommend that the Ministry of Education provide funding to municipalities and, through municipalities, to not-for-profit child care operators for capital expansion and renovation. This would involve funding for capital, retrofit, renovation, maintenance, and staff recruitment. The Ministry of Education should provide funding for this development and receive regular reports on these activities.

    The Government of Ontario should recognize that capital projects take considerable time and provide funding with sufficient time for completion of the projects, bearing in mind a realistic appreciation of the stages and approvals necessary. It typically takes 2-3 years for a new-build child care centre to materialize from notice of funding, to planning, council approvals, design, construction and licensing. Some smaller communities are able to complete the process in 1-2 years. Retrofitting can be accomplished in less time depending on the scope of work. Both capital and operating funding need to be allocated to municipalities on a multi-year cycle (Housing apparently has a 4-year cycle) and guaranteed in order to permit municipalities to make long term plans and enter into contracts for development and construction.

19. Other recommendations with respect to capital development:

- Continue funding the Schools First program; provide direction to the school boards to collaborate closely with the CMSM/DSSABs to ensure that local planning guidelines are taken into account in capital decisions.

- Ensure that all new capital construction include spaces for infants and toddlers, so as to build up this capacity.

- Initiate a Capital Construction Program for community construction outside the schools where necessary. Priority should still be given to building space in or around schools, but the CMSM/DSSABs also have a considerable amount of knowledge about the feasibility of construction elsewhere. The funding should be available for this.

- Initiate a Retrofit Program (for both schools and community) to be led by the CMSM/DSSABs according to the needs of expansion priorities.

- Provide allocations for CMSM/DSSABs to be used to assist child care centres and family home child care agencies and providers to undertake minor renovations and upgrades to facilitate expansion.

Relationships in Schools

20. There is universal support among service system managers for the Ministry's Schools First policy. We recommend that the Ministry of Education should:

    - require regular liaison and consultation between school boards and CMSM/DSSABs;

    - Ensure that the school boards' Early Years Leads are mandated to provide support to child care in the schools on a full-time basis.

    - Provide support to school boards to educate schools regarding the role and importance of early learning and child care as part of the entire school system.

    - Either eliminate payments or mandate a formula for low payments from early learning and child care programs required by school boards for rent or cost recovery. Early learning and child care is now an intrinsic part of the whole education system from 0-18.

Home Child Care

21. We recommend that the Ministry of Education should support the Home Child Care Association of Canada's position to introduce:

    "Core funding provided directly to the home child care agency that covers all fixed administrative costs as demonstrated initially by a budget submission and confirmed through the submission of audited financial statements.[30] *"*

    Grants to cover the costs of that administration would then be paid quarterly to the home care agency.

    The underlying assumption is that the agency will be responsible for the entire premises providing home child care and not just the numbers of children who are receiving fee-assistance. This base funding would cover the operating costs of supporting and improving the provision to the entire premises of high quality licensed home child care, including: recruiting providers, screening and training providers, engaging in a quality assurance process to include coaching and supporting providers, assist with home set-up, regularly monitor the homes and cover the program and administration costs of the agency. The providers would then receive their full per diem rate based on the number of children the provider is caring for.

    Base funding should be determined by CMSM/DSSABs based on actual costs in accordance with financial and operating information provided to the CMSM/DSSABs in the same manner as costs are approved at child care centres. Base funding should be worked out to take into account flexible and part-time hours offered by home care providers.

[30] Home Child Care Association of Ontario. *Expanding and Strengthening the Licensed Home Child Care System in Ontario: A New Funding Model, 2017.*

Workforce Issues and Staffing

22. We recommend that the Ministry of Education should, as a matter of urgency, appoint a Task Force, headed by a well-respected community representative, to review and make recommendations for a new system of classification of early learning and child care staff positions with appropriate qualifications and requirements for mandatory training for new staff, including:

    - Minimal level of training requirements at entry level. Several provinces already require this. PEI has the minimum requirement of 90 hours training to be obtained within a specific timeframe.
    - Minimal level of training requirements for Home Child Care providers.
    - Introduce new classifications for the positions of Child Care Assistant, Early Childhood Educator and Supervisor/Director. Reclassify positions to provide a more meaningful career path for the profession.
    - Make recommendations on requirements for mandatory professional development.
    - Consult with Community Colleges to plan training to appropriate to the revised classifications.

23. We recommend that the Ministry of Education should, after substantial consultation, develop a province-wide (or region-specific) salary scale for all classifications based on the revised occupational classifications. The salary scale should provide encouragements for upgrading qualifications and capabilities. The salary scale should include provision for supply staff. The salary scale should aspire to make early childhood education and care into an attractive and desirable career choice with compensation comparable to other such occupations. A timeline and path should be established whereby compensation can rise towards these desired levels.

24. The Ministry of Education should also set up a working group to identify appropriate insurance providers and to develop model benefit packages for consideration by operators. The Ministry should consider the Manitoba Child Care Association program for their members. It is designed for early childhood educators, child care assistants, and licensed family child care providers and provides a comprehensive plan that includes individual or family coverage and allows members to choose the appropriate level of protection whether they are single, have a family, or are integrating coverage with their partner's plan. Child care centres can choose from 3 different plan design options and can have a 3 or 6 month waiting period for new employees to enroll. There is a 6-month waiting period for licensed family child care providers. It also includes a

retiree plan for members that have been enrolled for two previous years and are leaving the child care workforce due to retirement.31

25. We recommend that the Government of Ontario should address as a matter of urgency the issue of Director's Approvals by adopting the recommendations proposed by the College of Early Childhood Educators of Ontario:

    At a minimum, the College recommends that any individual working in the place of an RECE (e.g., individual working under Director Approval in a licensed child care setting or a Letter of Permission for DECE positions in school boards, etc.) be regulated by the College and subject to the same requirements and accountabilities to practice in accordance with the Code of Ethics and Standards of Practice as RECEs.

    Doing so would ensure that expectations for practice are consistent and would help to eliminate confusion. Importantly, children and families would be afforded the same protections and access to the same recourse mechanisms through the College for practice, safety and conduct concerns and other issues.[32]

    The College, along with other organizations, recommends that the Ministry should review its requirements for evidence that an RECE is not available in the centre requiring "Director's Approval", and should determine whether they are sufficiently strict. There should be a maximum duration imposed for the maintenance of a Director's Approval.

26. The Ministry should offer an incentive grant of up to $5,000 for ECEs with approved ECE diplomas or degrees who return to work in a non-profit centre after having been away from the sector for at least two consecutive years.

27. The Ministry of Education should offer additional avenues to train unqualified staff. It was recognized that The Ministry's *Upgrade Program* whereby educators can apply for a grant towards upgrading through Education grants, travel grants and a training allowance, is a good start to addressing the scarcity of RECEs working in child care centres. But more is needed for staff who are do not have the capacity to study at the

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[31] Manitoba Child Care Association. Salary Grid. Retrieved from: http://mccahouse.org/membership-information/group-benefits

[32] The College previously shared these concerns with the Ministry in its submission to the Ministry's consultation in April 2016 regarding the *Child Care and Early Years Act* and the *Education Act*. A copy of the College's submission is posted on its website at https://www.college-ece.ca/en/Documents/cceya_regulation_phase_2.pdf.

same time as working. We have heard various other suggestions to enhance the staff experience; these included:

- Introducing an apprenticeship program so unqualified staff do not need to go off site (and not get paid) to do placements; George Brown College and Conestoga Colleges are examples of colleges offering a one year certificate program and an apprenticeship program for unqualified staff.

- Providing incentives to colleges to offer more on-line courses and courses with flexible hours that would be accessible to staff in their non-working hours so that it becomes possible for staff to keep their jobs and study at the same time.

- Directly pay for training of current staff out of the General Operating Grant. Waterloo is one of the CMSMs and DSSABs already paying for staff to go to college in the daytime.

- Provide a staff replacement (substitute) grant so that operators may hire supply staff to cover for unqualified staff while attending a recognized college training program in early childhood education. The lack of supply staff everywhere was a common refrain. The school boards are paying $14 an hour for supply staff, in many cases more than staff in early learning and child care centres earn and consequently staff are opting to supply for school boards before community child care centres. Raising rates for supply staff, as well as overall wages, is the obvious solution to this problem.

- Mandate and fund minimum requirements for annual professional development and training for centres and homes.

- Provide enhanced funding to francophone and Indigenous programs for salaries, benefits and training options. There are at least two francophone child care centres in the province that were newly built but unable to open in September, 2017 due to lack of staff. Attracting staff to the B/A school programs is also a serious problem because of the wages and the split shifts.

Rural and Remote Communities

28. Most CMSMs and DSSABs envelop rural areas in their municipal region. It was stressed that there needs to be a strategy to deal with rural issues including the lack of transportation. A few CMSMs and DSSABs suggested that funding for transportation should be available for families in rural areas.

    The issues are somewhat similar with Northern communities. It was stressed that there needs to be inherent flexibility in the north because of the unique nature of the circumstances. For example, the CMSMs and DSSABs would love to continue supporting programs in low-population communities where the numbers are uneconomic, but recognize the cost pressures. They are now working to establish small centres (15 children) with family groupings to make these programs possible.

    We recommend that the Ministry of Education should consult widely and examine the issues of service delivery in rural and remote areas. This investigation should include the examination of transportation options. This investigation would result in development of a strategy for effective delivery and use of child care services in rural and remote communities.

Flexible Hours Child Care

29. We recommend that municipalities, with the aid of the Ministry of Education, should investigate the need for child care services beyond traditional hours. In each municipality, provision of necessary services for extended hours, unusual hours and part-time hours, whether in home child care or child care centres should be explicitly included in Service System Manager plans. These plans should incorporate the development of appropriate rates for flexible hours and part-time hours care. In consultation with the Ministry, this would be incorporated into the schedule of grants provided to centres and for Home Child Care.

The Federal Government Should Contribute More

30. The Government of Ontario should put substantial pressure on the Government of Canada to play its required role in relation to supporting and funding the provision of child care in the provinces. We have seen that any substantial funding program to improve the affordability of child care in Ontario will bring increased revenues (at minimum, hundreds of millions of dollars annually) to the federal government, because of increased employment and incomes and reduced payment of child benefits. The

federal government should be refunding at least that amount of money to the province in addition to current funding.

31. There is another reason the federal government should be contributing more financially for Ontario funding of licensed child care. The Government of Canada is responsible for income tax rules in nine provinces, including Ontario. For a long time, the Child Care Expense Deduction has been too low in comparison to the price of licensed child care in Ontario's larger cities. Currently, the maximum deduction from income for families with one child 0-6 years is $8,000 annually. However, the actual fee can be over $20,000 for infants and over $15,000 for toddlers. Even fees for preschool child care can be well over $8,000. As a result of the low level of the Child Care Expense Deduction, the lower earner in many families (often the mother) is overtaxed and parental returns from employment are considerably lower than they should be. This has been true for many years. When the Government of Ontario lowers or eliminates child care fees, it will be reducing the effects of this over-taxation, but this is really the job of the federal government. This provides another reason why the federal government should be contributing financially to support the Government of Ontario in its expenditures on licensed child care. We recommend that the Ontario Government negotiate for an increased federal financial contribution.

32. Statistics Canada is Canada's statistical agency, and it has a very good reputation for collecting reliable data. However, it has been many years since it collected data on early learning and child care. The National Longitudinal Survey of Children and Youth (NLSCY) collected detailed data on children and their well-being, together with child care use data from 1994-5 to 2008-9. There was some further data collection in 2010-11. Since then, there has been nothing. Without reasonable data on families, children and child care use, both policy analysis and research are very significantly impaired. The Ontario government should seek a firm commitment from the Government of Canada to initiate a new program of research on child care, children and families, as a matter of urgency.

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APPENDIX A: GLOSSARY

AFNI	Adjusted Family Net Income
AQI	Assessment Quality Instrument
B/A	Before/After School
CCB	Canada Child Benefit
ELCC	Canada-Ontario Early Learning and Child Care Agreement
CPAM	Caregiving Parent Affordability Measure
CCEYA	Child Care and Early Years Act
CMSM	Consolidated Municipal Service Manager
DSSAB	District Social Services Administration Board
ECEC	Early Childhood Education and Care
ECERS	Early Childhood Environment Rating Scale
EDI	Early Development Instrument
EOs	EarlyOn Centres (formerly Ontario Early Years Child and Family Centres)
FHCC/HCC	Family Home Child Care/Home Child Care
FIAM	Family Income Affordability Measure
FF	Funding Formula
GOG	General Operating Grant
HCC	Home Child Care
HDLH	How Does Learning Happen
IWA	Indian Welfare Agreement
ITERS	Infant/Toddler Environment Rating Scale
JT	Journey Together
MCYS	Ministry of Children and Youth Services
MCSS	Ministry of Community and Social Services
EDU	Ministry of Education
MOHLTC	Ministry of Health and Long-Term Care
NOA	Notice of Assessment
OCCDES	Ontario Child Care Demand and Employment Simulation Model
OCCER	Ontario Child Care Employment Returns Model
OEYCFC	Ontario Early Years Child and Family Centre
OMSSA	Ontario Municipal Social Services Association
OW	Ontario Works
PT	Part-time
R&R	Recruitment and Retention

RECE	Registered Early Childhood Educator
SB	School Board
SACERS	School-age Care Environment Rating Scale
SNR	Special Needs Resourcing
WEG	Wage Enhancement Grant

APPENDIX B: WHAT FACTORS AFFECT COSTS IN ONTARIO CHILD CARE CENTRES?

What Is a Child Care Costs Model?[33]

A child care costs model is a model of the typical types and amounts of costs in a child care centre. This model includes wage and benefit costs and the costs of occupancy, administration, supplies and so on.

It is a model of operating costs, not of capital costs. The costs of purchasing land and building a centre are not included (although occupancy costs partly reflect capital costs; occupancy costs (e.g., rent) will be higher in areas where initial land purchase and construction costs were higher).

It is not a model that sums costs across the entire child care system. This costs model does not calculate the total cost of producing child care services across Ontario, or across any region. Instead, it looks at cost situations that are believed to be typical for a centre in different regions.

A costs model is a tool for thinking in an organized way about the ways in which change in one type of cost is likely to affect the cost of providing child care to children. More specifically, there are several reasons for developing a model of the cost of providing licensed child care for children.

- The first is to be able to predict what the effects of higher wages will be on the full cost per child of providing child care
- The second is to be able to forecast what is likely to happen to the total cost per child of producing child care if particular types of mandated changes in quality occur (e.g., increasing the proportion of staff with RECE-level training, changing group sizes, changing staff-child ratios, etc.)
- The third is to help us to think about what the implications of dramatically increasing the size of the child care system could be for the costs per child of providing services.

This type of costs model would also be useful in trying to determine whether current fees charged by centres are reasonable or not. In that sense, this kind of model is a cousin to

[33] Thanks to Petr Varmuza, OISE – University of Toronto, and Nicole Warner at Children's Services at City of Toronto for many suggestions about modelling costs. They are, of course, not responsible for my use of their suggestions.

models that have been developed by municipalities (e.g., Toronto, Ottawa) to help centres determine what fees they should be charging to the municipality for subsidized children.

Ideally, we would have a whole set of cost models representing different sizes of centre and different age combinations in a centre. Given the time and data available, a model of the costs in a "typical" child care centre is a good start.

We are interested particularly in children younger than kindergarten age. Let's model costs for a centre for children 0-4 years, with 10 infants, 15 toddlers and 48 children of preschool age[34]. We can this the Ontario Child Care Centre Costs Model (or OCCC model)

Staffing

Let us imagine this centre obeys all the rules and regulations to the letter. The maximum group size for infants is 10, so there is one infant group. The maximum group size for toddlers is 15, so there is one toddler group. The maximum group size for preschoolers is 24, so our centre would have two preschool groups. There are 10 infants – at current ratios that means 3 staff in the infant room at any time the 10 infants are present. There are 15 toddlers; at current ratios, that means 3 staff in this room at times other than close to starting time or closing time. There are 48 preschoolers (i.e., from 30 months of age to Junior Kindergarten); that means 6 staff in this room except at the beginning and end of the day. In addition, a full-time supervisor is needed for the centre as a whole.

The regulations now state that for the toddlers and preschoolers (but not the infants), the required staff complement is a minimum of 2/3rds of the normal requirement for the first 90 minutes and last 60 minutes of each day (arrival and departure periods). This means that staff requirements for toddlers fall to 2 staff and requirements for preschoolers fall to 4 staff in the first 90 minutes of the program and the last 60 minutes.

We assume, therefore, that there are 73 children enrolled in the child care centre, when it is full (at its licensed capacity). At the height of the day, there would be 12 staff working, 3 in the infant room, 3 in the toddler room, and 6 in the preschool room(s), plus the supervisor. However, at the beginning and end of the day there could be fewer staff; for two and one-half hours, there could be 2 staff in the toddler room and 4 staff working with preschoolers. In the infant room, there is no allowance of reduced-staffing for beginning and end of the day for

[34] Given group size regulations, this means that there is one infant group, one toddler group and one preschool group. Staff-child ratios and requirements for qualified staff need to be respected for each group.

safety reasons. Assuming that the child care centre stays open for 11 hours per day, that means 8½ hours of 12 program staff and 2½ hours of 9 program staff. Therefore, a total of 124.5 hours of program staff time are needed to cover an 11-hour day for these 73 children. Plus the supervisor.

It is a requirement that a minimum of 1/3rd of staff in each infant and toddler group need to be qualified RECE's whereas the remainder can be unqualified staff (not RECE's). For preschool-aged children, the regulations require two-thirds of staff to be qualified. For the infant room, given the 1/3rd ratio of qualified to unqualified staff, we can calculate that 11 of the 33 daily hours would have to be provided by qualified staff.

The calculation is trickier for toddlers and preschoolers. For toddlers, 1 out of 3 staff would be qualified for the main part of the day (8½ hours) and 1 out of 2 staff would be qualified for the remainder of the day. For preschoolers, 4 out of 6 staff would be qualified for the main part of the day, and 3 out of 4 staff for the remainder of the day (assuming groups would be merged with smaller numbers). For toddlers, that means 11 hours provided by qualified staff, and 19.5 hours provided by unqualified staff. For preschool children, 41.5 hours would be provided by qualified staff and 19.5 hours by unqualified staff.

Some of these hours might be provided by full-time staff and some by part-time staff. I am going to ignore any wage differences between full-time and part-time staff, and just do calculations based on the number of hours required using data on typical wage rates for qualified and unqualified staff. The evidence from the 2017 Child Care Operators' Survey confirms that hourly wages for full-time and part-time staff at the same level of qualifications are similar. Benefits may be different between full-time and part-time staff, but we will ignore this for lack of information.

Fringe benefits can cost between about 15% and 25% of the wage bill. The lower figure would cover only mandatory benefits and statutory holidays. The higher figure (25%) is a desirable target. I will set benefits as 20% of the wage for all types of staff and use this as a toggle switch to see the effect on overall costs of increasing this to 25%.

When program staff and supervisors are away on vacation or sick time, they need to be replaced. Toronto currently adds 10% to staff expenses to account for this. Let's allow 10% for staff replacement costs.

Other Expenses

I include $400 per child per year for program expenses. For this centre with 73 children, that would be $29,200. I include $4 per child per day for food and food preparation; that would be $76,212. Administrative staff costs are expected to be $1,200 per child per year ($87,600). Other administrative costs include office supplies and machine rental ($10,000 per year), insurance ($4,000 annually), accounting and other professional fees ($6,000 annually). Professional training and development during the year might cost $3,000 per year. These charges would vary widely from centre to centre and across the province depending on circumstances. The total of the expenses above would be $216,012 for a centre with 73 children.

CCEYA regulations require 2.8 square metres (just about 30 square feet) of indoor space for each child who is an infant, toddler or preschooler. That would be 2,190 square feet. There is also a substantial requirement for outdoor space. Although it is possible to get quotations on the cost per square foot of child care centre space, this varies enormously across cities and regions in Ontario. I will leave this open, assuming that the rental (or equivalent) cost of space (and cleaning etc.) will vary from about $1,000 per child per year to about $3,000 per child per year. For the calculations below, I will presume a standard amount of $1,000 per child, although in Toronto and other cities, it may be considerably more, unless the space is provided at reduced rates on a charitable or public service basis.

Calculating Costs

Wage costs vary across the province and by qualification level of staff. In the 2017 Child Care Operators' Survey, most child care centres in the province provided information about the wages earned by different categories of staff. The data reports wages in categories, not as an actual dollar figure. So, for instance, we know how many qualified program staff (RECE's, typically) in a centre received an hourly wage of $11.40-$15.00 per hour, and how many received between $15.00 and $20.00 per hour, and so on. This allow us to determine what is the median category of wages for a particular type of worker in each region (so, for instance, we can say that the median qualified program staff in Toronto receives an hourly wage between $20.00 and $26.68 per hour, but we don't know where in that range the wage of the median worker falls). In our calculations below, we look at both the low wage and high wage of the range for the median worker of each type in each region (so, in the example above, we would do calculations of costs if the median qualified program staff in Toronto earned $20.00 per hour and calculations of costs if she earned $26.68 per hour).

Table B-1 below shows the wage category for the median worker of each type in each region, from the 2017 Child Care Operators' Survey.

Table B-1
Hourly Wage Ranges of Median Workers by Region for Different Categories of Staff in Child Care Centres, Ontario 2017

	Qualified Program Staff	Program Staff Without Qualifications	Supervisor
Toronto	$20-$26.68	$15-$20	$30-$35
West Toronto	$15-$20	$11.40-$15	$20-$26.68
Central	$15-$20	$11.40-$15	$20-$26.68
Southwest	$15-$20	$11.40-$15	$20-$26.68
East	$15-$20	$15-$20	$26.68-$30
North	$15-$20	$11.40-$15	$20-$26.68

Source: Child Care Operators' Survey 2017

These hourly wages are reported including the influence of the Wage Enhancement Grant. For all program staff (including supervisors) earning less than $26.68 per hour, the province contributes $2.00 per hour in a Wage Enhancement Grant, or the amount necessary to bring them up to $26.68 per hour, whichever is less. There are other grants that contribute towards the costs of wages (pay equity grants and others). These vary across centres and I do not have an average figure either in Toronto or across the province.

Let us take Toronto as an example and look at total costs and cost per child. The wage cost of typical staff (i.e., at the median) who are qualified (i.e., who are certified with the College of Early Childhood Educators as Registered Early Childhood Educators) is between $20 and $26.68 per hour and the wage cost for untrained staff is between $15 and $20 per hour. Given the Wage Enhancement Grant, the amount the centre has to pay would be between $18 per hour and $24.68 per hour for qualified staff and between $13 and $18 for unqualified staff.

For the care of infants, the total annual wage and benefit bill for program staff (not including the Supervisor) would be between $166,746 and $229,958, using the low and high point of the wage range for median staff in the Toronto region. Using the same methods, for toddlers, the wage and benefit bill would be between $155,551 and $214,457. For preschoolers, the wage and benefit bill would again be between $344,692 and $473,791. Across all age categories in this 73-space centre, the total for program staff wages and benefits (not including the Supervisor) would be between $666,989 and $918,208.

Assume the Supervisor works an 8-hour day for all 261 operating days per year at the average wage of between $30 and $35 per hour (not eligible for the Wage Enhancement Grant). Her annual wage and benefit bill would be between $82,685 and $96,466. The total wage and benefit packet for program staff plus supervisor in this centre would then be between $749,674 and $1,014,672.

The other expenses, as itemized above are $216,012, not including occupancy costs. There is considerable variation in occupancy costs; we are presuming $1,000 per child annually, but this will be low in many cases. In this centre, if occupancy costs are $73,000, total centre costs would be between $1,038,686 and $1,303,684. Since there are 73 children being cared for, the average cost in this hypothetical Toronto centre is between $14,229 and $17,857 per child.

Allocating Costs By Children's Age Category

To get at the "true" costs of care for infants, toddlers and preschoolers separately, I will assume that the program staff costs stay with the children in the room but that other costs are divided according to the total number of children in the centre.

The joint costs are made up of the program expenses, food, office expenses, administrative staff and administrative costs, insurance, professional development, rent plus the salary and benefits of the Supervisor. These will be shared equally amongst the children. From our calculations, including the low and high median Supervisor's wage in Toronto, that total is between $371,697 and $385,478. Dividing this equally amongst the children, these joint costs contribute between $5,092 and $5,281 to each child's costs in Toronto.

The salary and benefit cost for program staff for infant care, including occasional staff replacement costs, are between $166,746 and $229,958. Divided amongst 10 children, this is between $16,675 and $22,996 each. That would make the cost per infant (including the joint costs) between $21,766 and $28,276. Stated on a daily basis, this would be between $83.40 and $108.34 per day for infant care in this Toronto centre.

The salary and benefit cost for program staff for toddlers, including occasional staff replacement costs, are between $155,551 and $214,457. Divided amongst 15 toddlers, this is between $10,370 and $14,297 each. That would make the cost per toddler (including the joint costs) between $15,462 and $19,578. Stated on a daily basis, this would be between $59.24 and $75.01 per day for toddler care in Toronto.

The salary and benefit cost for program staff for children of preschool age, including staff replacement costs, are between $344,692 and $473,791. Divided amongst 48 preschoolers, this is between $7,181 and $9,871 each. That would make the cost per preschooler (including the joint costs) between $12,273 and $15,151. Stated on a daily basis, this would be between $47.02 and $58.05 per day for preschool care in Toronto.

Using the median wage ranges provided in Table B-1, we can do the same type of calculations for other regions of the province. Table B-2 shows the results of these calculations for all regions as full-year costs for infants, toddlers and preschoolers. Table B-3 shows the same information in the form of daily costs of child care.

Table B-2
Calculated Annual Costs for Infant, Toddler and Preschool Child Care in Child Care Centres, by Region, Ontario 2017

	Annual Costs per Infant	Annual Costs per Toddler	Annual Costs per Preschooler
Toronto	$21,766-$28,276	$15,462-$19,578	$12,273-$15,151
West Toronto	$18,206-$21,641	$13,029-$15,336	$10,106-$12,147
Central	$18,206-$21,641	$13,029-$15,336	$10,106-$12,147
Southwest	$18,206-$21,641	$13,029-$15,336	$10,106-$12,147
East	$19,746-$25,556	$14,073-$17,701	$10,658-$12,973
North	$18,206-$21,641	$13,029-$15,336	$10,106-$12,147

Source: Ontario Child Care Centre Costs Model, developed by authors. Assumptions described in text of this appendix.

Table B-3
Calculated Daily Costs for Infant, Toddler and Preschool Child Care in Child Care Centres, by Region, Ontario 2017

	Infant Costs per day	Toddler Costs per day	Preschool Costs per day
Toronto	$83.40-$108.34	$59.24-$75.01	$47.02-$58.05
West Toronto	$69.75-$82.92	$49.92-$58.76	$38.72-$46.54
Central	$69.75-$82.92	$49.92-$58.76	$38.72-$46.54
Southwest	$69.75-$82.92	$49.92-$58.76	$38.72-$46.54
East	$75.66-$97.92	$53.92-$67.82	$40.84-$49.70
North	$69.75-$82.92	$49.92-$58.76	$38.72-$46.54

Source: Ontario Child Care Centre Costs Model, developed by authors. Assumptions described in text of this appendix.

These costs can be compared to the full fees shown in Table B-4. Although there are differences (infant full fees charged to parents are sometimes lower than median calculated costs per infant; fees in the North appear to be lower than estimated costs), the broad pattern of similarity suggests that, as you would expect, the cost of services and the fees charged for services are closely related.

Table B-4
Median Full Fees Charged for Infant, Toddler and Preschool Child Care in Child Care Centres, by Region, Ontario 2017

	Median Infant Full Fee per day	Median Toddler Full Fee per day	Median Preschool Full Fee per day
Toronto	$85.00	$66.00	$52.00
West Toronto	$66.95	$52.55	$46.25
Central	$57.50	$48.86	$42.84
Southwest	$55.45	$48.40	$42.00
East	$61.00	$51.00	$43.34
North	$51.00	$42.00	$38.00

Source: Ontario Child Care Operators' Survey 2017. Data provided by Ministry of Education. Calculations by authors.

Other Important Considerations

There are three other considerations that would affect the calculations above:

1. occupancy costs;
2. General Operating expenditures that could reduce wage expenditures/reduce fees charged;
3. the cost of vacancies.

Each of these could have an important impact on calculated costs.

Occupancy costs, as stated before, can vary enormously within a region and across regions. We did the calculations above based on the low assumed occupancy cost of $1,000 per child per year. If the occupancy cost was, for instance, $3,000 per child per year, it would add $2,000 per child per year to each of those per-child costs calculated above. Each $1,000 per child per year on occupancy costs translates into nearly $4.00 per day of extra costs.

In 2015, across the province, municipalities spent nearly $266 million on General Operating expenditures. The precise direction of these expenditures is under municipal discretion and varies widely across municipalities, but much of it is directed to supporting wages of educators and staff and reducing fees or at least not letting them rise. Variations between calculated costs and full fees (as shown in the comparison of Tables 3 and 4) may be partly explained by the effect of General Operating expenditures on fees charged.

Finally, but not least important, there is the issue of vacancies. Every vacancy represents lost revenue, and that lost revenue can be thought of as a cost, because it often means that the costs have to be spread over a smaller number of children. That would not be true if every time there was a vacancy, staffing and other costs went down by the same proportion. However, costs in child care are lumpy and inflexible, due to regulations on staff-child ratios etc., so costs do not go down much when a centre is not full.

The issue of vacancies can be a big problem because of the way that children "graduate" from preschool-aged child care. Preschool-aged children are those between 30 months of age (2½ years) and kindergarten age. However, children enter kindergarten at only one point during the year – the beginning of September. Essentially, in September (and the couple of months preceding September), children who are eligible to enter kindergarten in September change their child care arrangements. Some will move into a before and after school child care class within the same centre. Some will drop out of child care because kindergarten hours are sufficient for the family's needs. Whatever, the reason, child care centres lose one full calendar year of preschool children all on one day (or at least at one time of year close to September). All of the preschool children in the centre who are between three years eight months of age at the beginning of September and four years seven months of age at the beginning of September become eligible to enter kindergarten on the same day.

This creates two vacancy-related problems for child care centres. First, there are likely to be a large number of preschool vacancies in each centre in each September and the months following until the centre builds up its clientele to full complement. However, there is a second dynamic at play. Because toddlers "graduate" from toddler rooms all throughout the year as they reach 30 months of age, but preschoolers "graduate" all at one time, there can be insufficient room during the year to allow toddlers to move up into a preschool room. Some centres like to leave some vacancy in the preschool room during the year to allow them to accommodate "graduating" toddlers.

These pressures (added to the pressures caused by lack of affordability) mean that many centres will have some vacancies at different periods during the year. However, vacancies are a real cost. Since costs are not very flexible, vacancies mostly mean that the full costs need to be divided amongst a smaller number of children. Vacancies can clearly add to cost pressures in child care.

Staff Costs as a Percent of Total Costs

It is common to say that staff costs make up 80% or more of all costs in child care. That's not bad as a very round approximation, but it's not very exact. In fact, if we take the low end of the median wage range for each type of staff and in each region, staff costs (including qualified and non-qualified program staff wages and benefits, supervisor wages and benefits and an allowance for replacement for sick days and holidays) are only over 80% of all costs for infants in Toronto and the Eastern Region.

The staff costs percentage varies by age category of children. For infants (when we look at the low end of the median wage range), staff costs are 79%-83% across the regions. For toddlers, staff costs are about 70%-76%. For preschoolers, staff costs are about 62%-69% across the regions. Of course, if we take the high end of the median wage range the picture is somewhat different, but still similar. For infants (when we look at the high end of the median wage range), staff costs are 82%-87% across the regions. For toddlers, staff costs are 75%-81%. For preschoolers, staff costs are about 69%-75% across the regions.

Therefore changes in staff compensation will have a bigger effect on the cost of and fee for infant care than it will on the cost of and fee for preschool care.

What Can We Learn From this Costs Model?

We can use a model like this to answer several interesting questions about costs. For instance:

- What effect will a 10% rise in wages have on costs of providing child care?
- What effect would a rise in benefits have on the costs of providing child care?
- What effect would a move to "recommended" levels of compensation have on the costs of providing child care?
- What effect would requiring all program staff to be RECE-qualified have on the costs of providing child care?

The Effect of a 10% Rise in Wages

If the low and high ends of the median wage range rise by 10% for all types of staff (qualified and unqualified program staff, as well as supervisors), the results are as shown in Table B-5. This can be compared to Table B-3 to see the amount of the rise in daily costs in different regions. In summary, we can say that a 10% rise in wages causes a rise of between 8.0% and 8.6% in the daily costs of infant care (with the higher percentage coming where costs were highest before). For toddler care, the rise of 10% in wages causes a rise of between 7.2% and 8.0% in daily costs. For preschool care, the rise of 10% in wages causes a rise of between 6.3% and 7.4% in daily costs. In each case, the higher of these percentages comes where costs were previously highest.

Note that, since benefits are calculated as 20% of wage costs, the 10% rise in wages has an effect on the total cost of benefits, as well as affecting pure wage costs.

Table B-5
Calculated Daily Costs for Infant, Toddler and Preschool Child Care in Child Care Centres with a 10% rise in Wages above Current Levels, by Region, Ontario 2017

	Infant Costs per day	Toddler Costs per day	Preschool Costs per day
Toronto	\$90.22-\$117.66	\$63.65-\$80.99	\$50.21-\$62.34
West Toronto	\$75.53-\$89.69	\$53.71-\$63.12	\$41.40-\$49.68
Central	\$75.53-\$89.69	\$53.71-\$63.12	\$41.40-\$49.68
Southwest	\$75.53-\$89.69	\$53.71-\$63.12	\$41.40-\$49.68
East	\$81.70-\$106.19	\$57.80-\$73.09	\$43.40-\$53.16
North	\$75.53-\$89.69	\$53.71-\$63.12	\$41.40-\$49.68

The Effect of a Rise in Benefits to 25%

We have modelled employee benefits as 20% of wage costs for all staff levels. In many occupations, benefit packages cost more like 25% of wages. Table B-6 below shows what would happen to daily costs if employee benefits were to rise to 25%.

In sum, the daily costs of providing child care would rise by 3.2%-3.6% for infants. Daily costs for toddlers would rise by 2.8%-3.4% relative to current levels. Daily costs for preschool child care would rise by 2.5%-2.9% relative to current levels.

Table B-6
Calculated Daily Costs for Infant, Toddler and Preschool Child Care in Child Care Centres with a Rise in Employee Benefits to 25% of Wages, by Region, Ontario 2017

	Infant Costs per day	Toddler Costs per day	Preschool Costs per day
Toronto	$86.24-$112.22	$61.08-$77.50	$48.35-$59.84
West Toronto	$72.03-$85.74	$51.37-$60.58	$39.70-$47.85
Central	$72.03-$85.74	$51.37-$60.58	$39.70-$47.85
Southwest	$72.03-$85.74	$51.37-$60.58	$39.70-$47.85
East	$78.18-$101.36	$55.53-$70.01	$41.91-$51.14
North	$72.03-$85.74	$51.37-$60.58	$39.70-$47.85

The Effect of a Rise in Wages and Benefits to "Recommended" Levels

In order to recruit more staff and more qualified staff as the child care sector expands, wages and benefits will have to rise; it Is unclear by how much.

One useful thought-experiment is to imagine costs when wages and benefits reach some kind of "target" level. Although it is unclear what this level is, we could imagine that, over time, wages for qualified staff will rise to $26.68 per hour with benefits at 25% of the wage package. For unqualified staff, wages could rise to $20 per hour with benefits at 25%. And supervisors' wages could rise to $35 per hour, with benefits at 25%. I assume here that the WEG continues at $2 per hour for all staff, even those who have reached $26.68 per hour. Wages, benefits and all other costs are assumed to be the same in all regions.

In this case, the annual cost of infant care would be $29,497 or $113.02 per day. The cost of toddler care would be $21,284 annually or $81.55 per day. The cost of preschool care would be $15,381 or $58.93 per day. Of course, occupancy costs could be higher than the assumed annual amount of $1,000 per child, pushing the annual and daily totals up by corresponding amounts.

The Effect of Having All Program Staff Qualified

Another possible use of this type of costs model is to simulate the effect on costs of changes in legislation or regulations. So, for instance, one could simulate the impact of different changes in staff-child ratios. Or, as in this example, one could simulate the effect of requiring all program staff to have RECE qualifications.

We do this by assuming that the wage levels for qualified staff apply to all program staff (not including supervisors). This is only a very partial way of looking at this issue. We would imagine that if all program staff had to be qualified, there would be a large increase in the demand for qualified staff. Shortages would probably lead to a rise in wage levels above current levels. We ignore this important factor and only look at the immediate cost impact of requiring all program staff to be qualified.

Table B-7 shows the daily costs that result from hiring only qualified program staff. Note that it is assumed that both wages and benefits (and all other costs) remain the same as currently. The only change is that all program staff on the floor (apart from supervisory staff) receive the same wage rates as qualified staff do now.

The effect on costs of having all program positions filled by qualified staff varies across regions and age groups as shown in Table B-7. Infants and toddlers generally have a larger percentage of unqualified staff, so changing to all qualified staff has a bigger impact than for preschoolers. But the effect also depends on how big the differences in wages between qualified and unqualified staff before this change. At the largest, this causes an increase in nearly 18% in per-child costs. Sometimes, the effect on costs is much smaller. The details matter in this case.

TableB-7
Calculated Daily Costs for Infant, Toddler and Preschool Child Care in Child Care Centres with All Program Staff Having Qualifications, by Region, Ontario 2017

	Infant Costs per day	Toddler Costs per day	Preschool Costs per day
Toronto	$97.92-$127.74	$67.82-$86.47	$49.70-$61.63
West Toronto	$74.40-$97.44	$52.66-$67.34	$39.58-$49.22
Central	$74.40-$97.44	$52.66-$67.34	$39.58-$49.22
Southwest	$74.40-$97.44	$52.66-$67.34	$39.58-$49.22
East	$75.66-$97.92	$53.92-$67.82	$40.84-$49.70
North	$74.40-$97.44	$52.66-$67.34	$39.58-$49.22

Conclusions from the Costs Model

This appendix presents a costs model to help to determine what the per child cost of care is in different regions and for different age categories of children. The model is one attempt to determine what the key costs are in centres and how they vary. As the licensed child care system expands with improved affordability, it will likely be necessary to have some controls over rising costs and fees. The Ministry of Education will want to work with municipalities to determine the most appropriate way to model reasonable costs of service provision.

The calculated costs of child care provision are based on the data on wages from the Child Care Operators' Survey from March 2017. It does not include the effect on wages of the increase in the minimum wage of January 2018. Modelling costs is made more difficult by the fact that wage data is only available in ranges (e.g., $11.40-$15.00, $15.00-$20.00, etc.). More precise data on wages actually paid would make this kind of model more useful.

We can draw some conclusions from the calculated per child costs of child care for infants, toddlers and preschoolers in different regions. It seems as if in most or all regions, there is some cross-subsidization of infant care. In other words, the median fee charged for infant care in each region is below the range of calculated costs of infant care. Further, in the North region, fees for all types of care are below calculated costs. This suggests that the General Operating Grant is used actively in the North to lower child care fees and improve affordability.

The conventional wisdom is that wages and benefit costs make up 80% or more of the cost of child care. However, it is useful and important to see that staff costs are a bigger fraction of infant care costs, than of toddler or preschool costs. When we look at the low end of the wage ranges that are considered in each region, it is a good generalization that the percent of staff costs is in the 80's for infants, the 70s for toddlers and the high 60s for preschoolers. The percentages are somewhat higher if overall wage levels are higher, but the principle remains. In other words, staff costs (wages and benefits of program staff and supervisor) are a considerably lower percentage of the cost of preschool child care than they are of infant child care.

This implies that when wages or benefits rise, they will have less effect on the costs of preschool child care than on the costs of infant child care. We see that in the simulation of a 10% rise in staff wages. This pushes up infant care costs by 8.0%-8.6%. It pushes up toddler care costs by 7.2%-8.0%. It pushes up preschool child care costs by 6.3%-7.4%.

Benefits in our costs model are assumed to be 20% of wage costs for all staff. If benefits rise to 25% of wage costs, the result in an overall rise in costs per child of between 2.5% and 3.6%. The percentage rise is higher for infants than for toddlers and for preschoolers.

Raising wages and benefits to target levels would have important effects on costs and fees. If wages were $26.68 for all qualified workers and $20 for all unqualified workers, if supervisors received $35 per hour and benefits for all staff were 25% of wage costs, the annual cost of infant care would be $29,497 across the province. The annual cost of toddler care would be $21,284, and the annual cost of preschool care would be $15,381. If occupancy costs were higher than the assumed amount of $1,000 per child, these figures would be correspondingly higher.

This is not intended as an argument against rising wages and benefits in child care. It is obvious that wages and benefits will rise and should rise. It is important though that rising wages and benefits are designed appropriately to meet their objectives of recruiting and retaining a highly skilled workforce. There should be compensation for higher qualifications and perhaps for experience, and there should be a sufficient occupational ladder and set of qualifications to aim for that there is incentive for continual upgrading of skills and abilities. If compensation rises in a way that does not meet these goals, then child care will be expensive but of inadequate quality.

We also model the effect on costs of having all staff qualified (i.e., all staff are paid the wages and benefits currently received by qualified staff). This can have a large effect on per-child costs – nearly 18% rise for infant care in Toronto and nearly 15% for toddler care in Toronto. However, the effect of this reform is highly dependent on both the age category of child and what the prior differences in wages between qualified and unqualified were.

If child care in Ontario is going to move from its current market model to one in which child care is seen as a public service delivered by not-for-profit operators, there will be much more discussion and concern about what level of costs is reasonable. Wages, benefits and fees are likely to be managed rather than determined entirely by markets, so costs modelling may be an important management tool. This appendix is a contribution to that project.

APPENDIX C: THE EVOLUTION OF CHILD CARE AND CHILD CARE POLICY IN ONTARIO

The Evolution of Child Care and Child Care Policy in Ontario

Essentially, the story of child care in Ontario begins in World War Two. In order to permit women with young children to fill vital wartime production jobs, under the Dominion-Provincial War Time Agreement, federal and provincial governments established and funded day care facilities on a 50/50 cost-shared basis. The Day Nurseries Branch was established in the Ontario Government to administer funding. In Toronto, most of the forty-one newly-established programs were operated by the local government. When the war ended and the government wanted to shut down these facilities, there was organized resistance and 19 of the facilities were kept open.

The Day Nurseries Act was established in 1946 to provide a legislative and regulatory framework for these facilities and others. However, federal government funding disappeared, responsibility for day care was moved into the welfare department, administrative responsibility rested with municipalities and funding assistance was now “means-tested”. As the Daycare Reform Action Alliance put it “Daycare was no longer a right…but for those in ‘special need’.” (p.3, 1975)

The Canada Assistance Plan and Child Care Subsidies

The modern history of child care in Ontario begins in 1966 when the federal government passed the Canada Assistance Plan. This was a response to the pervasive concern about poverty and the effects of poverty in Canada. The Canada Assistance Plan established a major federal role in funding welfare and social services – generally on a 50/50 basis with the provinces. Because women with young children, and particularly single women with young children, were an important component of family poverty, the Canada Assistance Plan also provided some funding for child care. This was a major innovation; for the first time since World War Two, the federal government was a major funding participant in child care.

Under the Canada Assistance Plan, families could be provided financial assistance with child care services in two possible ways: the welfare incomes route and the welfare services route. A province would have to choose which method to use. Under the welfare incomes route, a family could be provided financial assistance with child care if they were determined to be “in need”. To determine need, a family had to undergo a needs test – a comparison of their legitimate expenditures to their available income (including assets that could readily be liquidated). If the needs test could show that a family did not have enough income available to be able to afford licensed child care, they would be given a subsidy (in Ontario, cost-shared 50/30/20 among the federal, provincial and municipal governments). The amount of subsidy they were given would depend on whether the needs test showed that they had some income (after deducting expenditures) that they could contribute.

The welfare services route was simpler. Families had to undergo an income test (but did not have to provide evidence about their expenditures). The income test was said to be a judgement of whether the family was "in need or likely to be in need" (i.e., likely to be in need if the family did not receive assistance obtaining child care). If the family income was below a certain point (the turning point, which varied according to the number of parents and the number of children), the family would get a full subsidy. If the family income was higher than this, a formula determined how much subsidy the family would receive towards their child care costs. Subsidies were cost-shared 50/50 between the province and the federal government.

All provinces except Ontario went with the simpler welfare services route (income test). Ontario went with the welfare incomes route (needs test). Part of the rationale of the Ontario government was that the welfare services route required that all eligible service providers had to be not-for-profit, rather than commercial. Only with the welfare incomes route was it permissible for subsidies to be used in for-profit child care services.

However, as a result of this decision by the government, Ontario's subsidy system has had a long history of being strongly twinned with social assistance, with very intrusive testing of potentially subsidizable families, and with bureaucratic administration of access to the subsidy system. This was compounded in Ontario with municipal responsibility for administration of subsidy. The administration of the needs test and rules around what subsidy would cover (minimum fees, maximum amounts the municipality would cover, etc.) varied from one municipality to another, making the funding of child care opaque and forbidding to many potential users. Further, the cost-sharing in Ontario was 50/30/20 instead of 50/50, because municipalities were expected to pick up a 20% share. As a result, municipalities had incentives to spend less on child care and change eligibility and payment rules to reduce their potential expenditures.

With either the welfare services route or the welfare incomes route, there was also an activity test for subsidy eligibility. In other words, parents were expected to either be employed, in training for employment, or studying (as well as qualifying according to the needs test in Ontario or income test in other provinces) to be eligible for a child care subsidy. There were exceptions to this rule, of course; special circumstances for either children or parents might satisfy the activity test.

The Mainstreaming of Child Care – the 1970s, 1980s and 1990s

Day care was an important public issue throughout the 1970's and 1980's, paralleling the increase in women's participation in labour markets. The Royal Commission on the Status of Women reporting in 1971 wrote:

> *"We recommend that the federal government immediately take steps to enter into agreement with the provinces leading to the adoption of a national Day-Care Act under which federal funds would be made available on a cost-sharing basis for the building and running of day-care centres meeting specified minimum standards, the federal government to (a) pay half the operating costs; (b) during an initial seven-year period, pay 70 per cent of capital costs; and (c) make similar arrangements for the Yukon and Northwest Territories"*

In June of 1974 in Ontario, Minister Margaret Birch tabled proposals in the legislature

that became known as the Birch Proposals. The initiative was driven by a desire to reduce costs and fees. There were proposed reductions in required staff-child ratios; decreased standards in staff qualifications and training; elimination of the requirement that daycares have kitchens and altering the requirements for physical standards. The proposals were criticized by both non-profit and for-profit day care associations for different reasons. Opposition to these proposals birthed the child care advocacy movement in the province. The government eventually shelved the recommendations.

At the federal level, there were two major reports on child care funding – the Katie Cooke report (or Task Force on Child Care) in 1986 and the Special Parliamentary Committee on Child Care which reported in 1987. The mandate of the Task Force, set up by the Trudeau government, was to "examine and assess the need for child care and parental leave in Canada, as well as the adequacy of current systems, and make recommendations on the federal government's role in the development of a national system of quality child care." The Task Force recommended a publicly funded universal child care system as a long term objective. This would be gradually developed and eventually cost $11.3 billion per year.

The Special Parliamentary Committee on Child Care, established by the incoming Mulroney government called for reform of the Child Care Expense Deduction and more money to be spent on subsidies, operating grants and capital grants. This would have established a federal role in child care spending with total federal spending of nearly $1 million annually.

In Ontario, in 1987, the government under David Peterson published a major policy document entitled New Directions for Child Care. The document promised "a comprehensive policy that recognizes child care as a basic public service, not a welfare service." This ushered in payment of direct operating grants to licensed child care services – the first major example of supply-side funding in child care in Ontario. In addition, the government mandated the inclusion of day care centres in all newly-built schools, beginning a twinning of child care and schools that continues today.

Introduced in 1988, the Direct Operating Grant (DOG) program increased salaries and wages of staff and care providers in both licensed centres and private home day care agencies. The average wage increase for child care centre staff was 18% in non-profit centres and 12% in commercial centres. An evaluation of the first year of the DOG was completed in July, 1990, indicating that 85% of the approximately $46.5 million was used to augment salaries and benefits, and 15% was used for non-salary purposes. (p. 4)

In 1994, the Report of Ontario's Royal Commission on Learning recommended free early childhood education programs for all three, four and five year olds as part of the education system in Ontario.

In 1995, Minister Janet Ecker published Improving Ontario's Child Care System: Ontario's Child Care Review.

The federal Canada Assistance Plan, which was the foundation of child care subsidy systems across the country, was terminated in 1996. This was the end of 50/50 federal/provincial cost-sharing of most child care expenditures (50/30/20 in Ontario). The Canada Assistance Plan was replaced by the Canada Social Transfer to fund social services and post-secondary education, but this is a block grant, so there is no accounting for whether federal funds are spent on child care or not. Following the demise of the Canada Assistance Plan, provinces and territories began to plan, fund, develop and operate in increasingly different ways.

The most significant developments were the major changes to family and child care policies in Quebec from 1997 onwards.

In April 1999, the Report of the Early Years Study, by Dr. Fraser Mustard and Hon Margaret McCain, was released. The report made the case that development in a child's first six years sets the foundation for lifelong learning, behaviour and health. The report recommended that Early Childhood Development and Parenting Centres should be accessible and affordable for all children and families in Ontario prior to school entry.

In 2001/2 103 Ontario Early Years Centres were established in every riding in Ontario.

In the early 2000s, the federal government developed a Children's Agenda. Under this, there was a Multilateral Framework Agreement for spending on early learning and child care developed in 2003. This provided additional funding for provinces, and led towards the bilateral agreements designed to provide funding for a National Child Care Plan. These bilateral agreements were cancelled under the incoming Harper Government in 2006.

Recent Child Care Policy Developments in Ontario

A new Ontario government in 2003 had a platform for young children called Best Start. It was a long-term plan to promote healthy development and early learning and child care for Ontario children so they would arrive at school ready to learn. The goal was to create a universal regulated child care system as a “seamless extension of our public education system”. A Ministry of Children’s Services was established (later changed to the Ministry of Children and Youth Services). It took the responsibility for children’s services previously held by the Ministry of Community and Social Services.

In November 2004, the government announced its Best Start strategy. This involved a major expansion of child care for children of junior and senior kindergarten age, moving towards integrated seamless services. Three pilot projects were established to develop part-day preschool (at no cost to parents) Temiskaming, Hamilton, Chatham-Kent-Lambton) as well as construction of new centres in schools and the beginning of forging new relationships between school boards, schools, municipalities and child care operators. Also, a plan to revamp the subsidy system, develop an early learning framework and establish a College of Early Childhood Educators.

Federal-provincial bilateral agreements providing funding for child care were cancelled in March 2006, but some funds still flowed as a result of these agreements.

Ontario revised its subsidy system to introduce income testing effective January 1, 2007. The system was more generous than the previous needs test. Family incomes below $20,000 of adjusted family income would qualify for full subsidy. Up to $40,000 families would have to contribute 10% of the extra income earned above $20,000. Above $40,000, families would have to contribute 30% of the income earned above $40,000. This meant that for a family with, for instance, $20,000 of annual child care fees to pay, the availability of partial subsidy would disappear at a family income level of $100,000.

In 2007, a new curriculum framework for the early years, known as ELECT, was adopted, and the College of Early Childhood Educators was established. In the election campaign of 2007, the incumbent governmental party promised to bring in a universal full-day early learning program for all four and five year-old children in Ontario.

Charles Pascal was appointed as Early Learning Advisor to Premier Dalton McGuinty in November 2007 to recommend a model for implementing full-day early learning for all four and five year-olds. His report, *With Our Best Future in Mind*, came out in June 2009. It recommended that child care become the responsibility of the Ministry of Education and that full-day learning for 4 and 5 year olds become universally available with a team teaching model (university-qualified teacher and community-college trained early childhood educator as well as offering a seamless experience for children from early morning until evening. Best Start Centres, typically in schools, would become the main location for 0-4 year-old child care.

Full day early learning (i.e., full-day kindergarten for 4 and 5 year olds with a team-teaching model) was phased in across the province over the period 2010-2014.

In 2011, the province began consultations on a plan to modernize the child care system.

Developments under this plan include:

- Revised governing legislation and regulations - the Child Care and Early Years Act, 2014;
- More specific curriculum guidelines - How Does Learning Happen? Ontario's Pedagogy for the Early Years;
- Expanding before and after school programming for children 6-12 years in schools – co-ordinated by the school system and in collaboration with CMSMs/DSSABs.
- Expanding spaces through capital investments focused in new and expanding schools.
- Integrating Ontario's child and family programs – Ontario Early Years Child and Family Centres to be managed by local municipalities (instead of being separate and independently funded) beginning in 2018. They were transferred from Ministry of Children and Youth Services in 2014.
- $2 per hour wage enhancement grants provided directly by the province to all staff earning less than $26.26 per hour.
- There is also a plan to develop a French language resource document to promote French language and Francophone culture in Ontario.

In 2017, Ontario published "Ontario's Renewed Early Years and Child Care Policy Framework". Renewed because it updates and changes an Early Years and Child Care Framework published in 2011. As the document says, it sets out the government's "plan to transform Ontario's early years and child care system." (p. 5). The document outlines 7 areas of action. They are:

1. Increasing access to early years and child care programs and services
2. Ensuring a more affordable early years and child care system
3. Establishing an early years workforce strategy
4. Determining a provincial definition of quality in the early years
5. Developing an approach to promoting inclusion in early years and child care settings
6. Creating an outcomes and measurement strategy
7. Increasing public awareness of Ontario's early years and child care system

Recent developments include:

In 2017, the Ministry provides $1.44 billion to 47 municipalities (including wage enhancement, child care expansion plan funding, ELCC funding, operating funding, fee subsidies, special needs resource funding and administration). There are 406,395 licensed child care spaces in 2016-17, up 117% since 2003-2004.

The $1.44 billion includes funding under the federal/provincial Canada-Ontario Early Learning and Child Care Agreement. This agreement provides for $435million of spending over three years.

There is $120 million over 2016-2019 to create 4,000 new child care spaces in schools – a new Child Care Expansion Plan. There is $269 million over 3 years for wage enhancement.

Early years initiative under The Journey Together: Ontario's Commitment to Reconciliation with Indigenous Peoples. This initiative is intended to enhance access to culturally relevant, Indigenous-led early years programs and services off-reserve, including child care and child and family programs.

On September 12, 2016, Ontario made a commitment to provide access for 100,000 more children aged 0 to 4 years.

First Nations Child Care

The Child Care and Early Years Act, 2014 (CCEYA) authorizes a First Nation or group of First Nations to establish, administer, operate and fund child care and early years programs and services. Some fee subsidies for licensed on-reserve child care programs are cost shared on an 80% provincial / 20% First Nations basis. First Nations manage the fee subsidy system in their respective communities. The province covers 100% of other child care costs under the Ministry of Community Services Act.

Currently, 57 out of 133 First Nations have provincially-funded licensed child care in their communities, with a total capacity of 3,175 licensed child care spaces. There are also two licensed home-based child care agencies on reserve supporting a total of 31 homes (Licensing data as of March 31, 2017). These are in Akwesasne and Six Nations.

Ontario has increased child care funding to the 57 First Nations with existing child care programs from $17.7M in 2011-12 to $27.7M in 2017-18 ($30.8M with wage enhancement funding).

There is funding to support formal and informal child care costs for individuals participating in the full Ontario Works (OW) Program. EDU provided $964,237 in 2016-17 to 17 First Nations without licensed child care on reserve, and 30 of the 57 First Nations with licensed child care on reserve.

The Ministry of Education currently provides approximately $712,000 to five First Nations currently delivering child and family programs on reserve.

Since 2011-12 the government has increased First Nations child care funding from $17.7 million to $30.8 million in 2017-18, including $2.9M in wage enhancements.

The Evolution of Child Care in Ontario – in Numbers

Table C-1
Licensed Child Care Spaces Available in Ontario 1992-2015

Year	Ontario: Number of licensed child care spaces (0-12)	Ontario: Number of licensed child care centre spaces (0-5) (est.)
1992	145,545	105,150
1995	147,853	n.a.
1998	167,090	108,150
2001	173,135	118,160
2004	206,743	123,970
2006	229,875	138,920
2007	242,488	
2008	256,748	159,150
2010	276,410	163,120
2012	292,997	175,880
2014	334,010	199,328
2015	350,801	215,578
2017	406,395	253,121

Source: Most of these figures are from the Childcare Resource and Research Unit, ECEC in Canada 2014. The 0-5 spaces are calculated from % of 0-5 children who have spaces available. 2015 and 2017 figures are calculated from Ministry of Education data and do not include regulated home care. The Ontario Child Care Providers' Survey of 2017 tabulates that there were 12,641 children younger than compulsory school age using home child care in March 2017, and 15,923 including all ages.

Table C-2
Provincial/Municipal Expenditure on Licensed Child Care, Ontario

Year	Provincial/Municipal Expenditure on Licensed Child Care ($ millions)
1995	541.8
1998	470.5
2001	451.5
2003/4	497.4
2005/6	830.1
2007/8	780.4
2009/10	801.8
2011/12	865.1
2013/14	960.1
2015/16	1,307.5
2016/17	1.440.0

Source: Most of these figures are from CRRU, ECEC in Canada 2014. 2015 and 2016 figures are provided by the Ministry of Education and may not be perfectly comparable.

APPENDIX D: TAXES AND BENEFITS FOR ONTARIO FAMILIES

Ontario parents who have incomes will generally have to pay income taxes on that income, and will also have Canada Pension Plan payments and Employment Insurance payments. In addition, they will be eligible for benefits, some of which work through the tax system (reducing taxes payable) and some of which are separate from the tax system (e.g., Canada Child Benefit).

These taxes and benefits are important for families and important for society. Even though many of us when asked how much income we make, will think of our gross (i.e., pre-tax) income, it is the after-tax after-benefit (i.e., net) income that is most important for our well-being and the well-being of our children. Even though taxes and benefits are difficult to calculate precisely, economists believe that parents' economic decisions are affected by net income rather than gross income. Of course, child care costs also influence parent decisions, but our concern in this appendix is to describe the taxes and benefits that affect the amount of income parents have available to spend, before considering child care costs.

Our objective is to describe the details of these benefits and taxes.

1. **Canada Child Benefit (CCB)** is calculated from July of one year to June of the next, based on adjusted family net income from the previous year, the number and ages of children.

To calculate the adjusted net income of one parent take that parent's income from all sources plus registered disability savings plan (RDSP) benefits received and plus any social assistance payments received. Then subtract any pension contributions, any union dues, and the Child Care Expense Deduction. The Child Care Expense Deduction is generally only claimable by the lower earning spouse in the family.

Add together the adjusted net income of both parents, if there are two, to get Adjusted family net income (AFNI).

We can calculate the Canada Child Benefit (CCB) as follows.

- $6,400 per year ($533.33 per month) for each eligible child under the age of six; and
- $5,400 per year ($450.00 per month) for each eligible child aged 6 to 17.

These amounts start being reduced when the adjusted family net income (AFNI) is over $30,000. The reduction is calculated as follows:

- For families with **one** eligible child, the reduction is 7% of the amount of AFNI between $30,000 and $65,000, plus 3.2% of the amount of AFNI over $65,000.

- For families with **two** eligible children, the reduction is 13.5% of the amount of AFNI between $30,000 and $65,000, plus 5.7% of the amount of AFNI over $65,000.
- For families with **three** eligible children, the reduction is 19% of the amount of AFNI between $30,000 and $65,000, plus 8% of the amount of AFNI over $65,000.
- For families with **four or more** eligible children, the reduction is 23% of the amount of AFNI between $30,000 and $65,000, plus 9.5% of the amount of AFNI over $65,000.

What all of this means is that for a family with one child under age 6, the CCB declines from $6,400 to $3,950 as ANFI rises from $30,000 to $65,000, and then declines more slowly as ANFI rises from $65,000 up to $188,437 (at which point the CCB has fallen to zero). For a family with two children under age 6, the CCB declines from $12,800 to $8,075 as ANFI rises from $30,000 to $65,000, and then declines more slowly as ANFI rises from $65,000 up to $206,667 (at which point the CCB has fallen to zero).

In addition, there is an **Ontario Child Benefit (OCB)** which comes from the Province and, in effect, "tops up" the CCB. The Ontario Child Benefit provides direct financial support to low to moderate income families – whether they are working or not. It helps parents with the cost of raising their children.

The Ontario Child Benefit supports about one million children in over 500,000 families. It provides a maximum payment of $1,356 per child per year ($113 per child per month), and is provided as an additional part of the CCB, paid by Revenue Canada. The OCB declines by 8% of any family net income above $20,706. That means that for a family with one child under age 6, the OCB disappears when family net income rises above $37,656, while for a family with two children under age 6, the OCB disappears when family net income rises above $54,606.

The CCB is more generous, especially to middle and upper middle class families.

2. **Payroll Taxes**

a) **Employment Insurance**

In 2017, the employee contribution is 1.63% of earnings up to $51,300, for a maximum employee payment of $836.19. The rate is applied from the first dollar earned. The premium generates a non-refundable tax credit, reducing its cost by 21.05% in Ontario once the individual begins paying income taxes (but not before).

b) **Canada Pension Plan**

In 2017,the employee contribution is 4.95% of earnings up to $55,300, with an exemption for the first $3,500 earned, for a maximum employee payment of $2,564.10. The rate is thus applied on all dollars above $3,500. The premium generates a non-refundable tax credit, reducing its cost by 21.05% in Ontario once the individual begins paying income taxes.

3. **Working Income Tax Benefit (WITB)**: a relatively small income tax credit for low income individuals. Only one person in the family can claim it. It is not a "tax credit" as defined on Schedule 1, but rather is a straight credit against taxes owed, so it can be more important than it looks if income is very low.

The WITB is calculated a little differently than the description below if the recipient is disabled.

Calculate in the following way:

> "Working Income" = employment or self-employment income + taxable scholarship income.
>
> "Adjusted Family Income" = Net Income from line 236 on the personal income tax form (that is all income, minus deductions such as pension contributions and union dues and the child care expense deduction).

For person with dependant or spouse

> Take (Working Income −3000)x0.25
>
> Take this amount or $1,868, whichever is less
>
> Subtract from this 0.15[Adjusted Family Income – 16,122]

As before, the $1868 number clicks in at relatively low incomes. The WITB disappears when Adjusted Family Income goes over $28,575.33. This tax credit is not a big player if the spouse's net income is above $20,000 (which itself is below what someone working full time at the minimum wage would earn). But this credit could come into play if the mother was , and so strangely enough ("strangely", because the purpose of the WITB is to encourage labour force participation), serves as a mild work disincentive for mothers with low income spouses.

4. **Social Assistance** (from Tweddle, Battle and Torjman, 2017). This document calculates basic support levels for two relevant types of families– single parents with one child and two-parent families with two children. In Ontario, social assistance is known as *Ontario Works*. Once the family is eligible for social assistance, net income reduces the payment received by 50% of net earnings above $2,400 per year. These earnings do not include the Canada Child Benefit, Ontario Child Benefit, and the HST credit. Social assistance is paid on top of the child benefits, and the HST and provincial tax credits.

The maximum amount for a single-parent family with one child is $19,940 (so social assistance disappears as soon as Net Income exceeds $42,280) and the maximum amount for a couple with two children is $27,774 (so social assistance disappears as soon as Net Income exceeds

$57,948. Being on OW qualifies you for a full child care subsidy. Social Assistance payments are not taxable.

5. **Subsidized Housing** is available to some but not all poor families. Generally there are long waiting lists for subsidized housing. The program requires families to pay 30% of income for housing, so there is a large “tax-back’ rate on families when the mother goes out to work. Typically, the calculation of the 30% contribution is on available income. Subsidized housing is available to only a small number of families.

6. **HST Credit** is paid automatically by Revenue Canada to eligible families using the previous year’s net income. Currently (based on the 2016 tax year), a single parent family with one child receives a maximum payment of $707 as long as net income is under approximately $36,429. When income is over this amount, the benefit is reduced by 5% of the excess of net income over $36,429. In contrast, a two-parent family with two children receives a maximum payment of $854 as long as family net income is under $36,429. When income is over this amount, the benefit is reduced by 5% of the excess of family net income over approximately $36,429. For married couples, the credit is paid to the individual whose tax return is assessed first. The child tax benefit is not included in family net income for this calculation.

7. **Federal Taxes** are calculated from the 2016 Federal form. Single parents with one child do not start paying taxes until taxable income exceeds $22,948 (the personal amount of $11,474 plus the same amount for the dependent child), plus $1,161 (the employment amount) plus whatever the total of CPP and EI contributions are. Two-parent families must be calculated twice, once for each adult. When one spouse is not earning income, the other spouse gets credits for the personal amount of $11,474 plus the same amount for the dependent spouse) plus $1,161 (the employment amount) plus whatever the total of CPP and EI contributions are. When the main caregiving parent goes out to paid work, the other parent loses her as a credit as her net income rises. The main caregiving parent will take the CCED until her income rises above the other parent’s, in which case he takes it.

8. **Ontario Taxes** are calculated from the 2016 Ontario form, and is somewhat more complicated than the federal calculation for lower income taxpayers, both because of the Ontario Tax Reduction and because of the separate structure of the Ontario Health Premium. Not counting the tax reduction (see below), single parents with one child do not start paying taxes until adjusted net income exceeds $18,511 (the personal amount of $10,011 plus $8,500 for the dependent child) plus whatever the total of CPP and EI contributions are. This means that no taxes are generated until adjusted net income exceeds $19,629.36.

There is a tax reduction for individuals who owe very small amount of Ontario tax, but the reduction is calculated for the parent with the higher taxable income (for a single parent with one child, any tax owed below $658 is cancelled, and the tax reduction applies, but at a lesser amount, as long as taxes are less than $1,316; for a single parent with two children, any tax owed below $1,085 is cancelled, and the tax reduction applies, but at a lesser amount, as long as taxes are less than $2,170). For the single parent with one child, taxes are eliminated as long as taxable income is below about $34,000, and there is a partial Ontario tax reduction until taxable income gets above just below $45,000.

Notwithstanding the calculations above, individuals with taxable income above $20,000 will have to pay an Ontario Health Premium (which is calculated after the tax reduction is applied). The Health Premium is 6% of (Net Income − $20,000) for Net Income between $20,000 and $25,000, $300 if Net Income is between $25,000 and $36,000, $300 + .06(Net Income − $20,000) for Net Income between $36,000 and $38,500, $450 if Net Income is between $38,500 and $48,000, $450 + .25(Net Income − $48,000) for Net Income between $48,000 and $48,600, $600 if Net Income is between $48,600 and $72,000, $600 + .25(Net Income − $72,000) for Net Income between $72,000 and $72,600, $750 if Net Income is between $72,600 and $200,000, $750 + .25(Net Income − $200,000) for Net Income between $200,000 and $200,600, and $900 if Net Income is over $200,600.

Two-parent families must be calculated twice, once for each adult. When one spouse is at home, the other spouse gets credits for the personal amount of $10,011 plus $8,500 for the dependent spouse) plus whatever the total of CPP and EI contributions are. When the main caregiving parent goes out to paid work, the other spouse loses her as a credit as her net income rises. The main caregiving parent takes the CCED until her income rises above the other spouse's, in which case he takes it.

Charts are Easier to Read Than Numbers

It is, of course, virtually impossible to read about these taxes and benefits and get a clear picture of their implications. In Chapter 8, entitled "Different Funding Approaches – The Evidence", we use this information about taxes and benefits to calculate the implications for two different family types with different numbers and ages of children. One is a lone parent family with one child of toddler age (e.g., 24 months), facing child care fees of $17,000 annually. The other is a two-parent family with one toddler and one preschooler (e.g., 24 months and 36 months). Assumed child care fees for these two children are $30,000 annually. The main caregiving parent is considering whether it is worth taking paid employment. In the two-parent family, the other spouse is assumed to be already employed and earning a gross income of $40,000 per year. The charts in Chapter 8 are based on calculations of after-tax, after-benefit income. Further, the net child care costs are subtracted from the main caregiving parent's spendable income when she enters paid employment. The charts show what percentage of her gross income is actually made up of an increase in spendable income available to the family.

APPENDIX E: PEOPLE WHO HELPED US

Toronto

Elaine Baxter-Trahair, General Manager, Children’s Services, City of Toronto and Past-President, Ontario Municipal Social Services Association

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