

The Muttart Foundation Response to the Early Learning and Child Care Funding Formula Approach outlined in Discussion Papers Prepared by the Ministry of Children and Family Services, Government of Alberta

On behalf of The Muttart Foundation, please accept the following submission in response to the early learning and child care funding formula approach outlined in the discussion papers prepared by the Ministry of Children and Family Services.

The Muttart Foundation is a private charitable foundation based in Edmonton, Alberta. The Foundation's charitable activities and funding support work to advance early learning and child care public policy that is informed by research evidence and guided by the best interests of children and their families. Over the last two decades, the Foundation has worked with federal, provincial and municipal governments and other community partners to advance the organization, financing and delivery of early learning and child care for young children and their families.

It is the Foundation's anticipation that the Ministry of Children and Family Services will design and implement funding approaches for regulated child care services that support the delivery of high-quality services for all children and their families and are informed by a combination of research evidence and stakeholder perspectives.

Early Learning and Child Care Funding Approach

The *Canada-Alberta Canada-wide Early Learning and Child Care Agreement* provides a historic opportunity to transform the provincial child care sector into a more publicly funded and managed system of early learning and child care (ELCC) that better meets the needs of children and their families. Central to this transformation is the move away from the primary reliance on parent fee revenues to finance the delivery of regulated child care to the direct public funding of services.

The funding approaches governments use to support early learning and child care remain one of the most important policy tools available to them to ensure that the provision of service meets agreed public policy goals. Under the *Canada-Alberta Canada-wide Early Learning and Child Care Agreement*, the main policy goals are to reduce parent-paid fees, to expand the provision of high-quality, affordable child care, to address barriers to inclusion and the delivery of flexible child care and to value and support the early childhood workforce.¹

Research on early learning and child care funding by the Organisation for Economic Co-operation and Development (OECD) and others find that both the level and nature of public funding matters. Generally, well-funded supply-side funding approaches are associated with higher quality service provision, better

¹ Canada-Alberta Canada-Wide Early Learning and Child Care Agreement – 2021 to 2026.
<https://www.canada.ca/en/early-learning-child-care-agreement/agreements-provinces-territories/alberta-canada-wide-2021.html>

preparation, compensation and working conditions for early childhood educators and improved service accessibility for children and their families than demand-side funding models. As part of its earlier review of Canada's child care provision, the OECD recommended the move towards the operational funding for services rather than the reliance on parent subsidy approaches.

As the Ministry of Children and Family Services develops a new funding formula approach for early learning and child care its main goal must be one of ensuring that supply-side funding for child care provision is both sufficient in amount and form to support families' equitable access to high-quality, affordable child care for their children. The realization of this goal will depend on the Ministry's appropriate design, regulation and management of public funding.

Drawing on the research on ELCC financing models and taking into account the predominantly private delivery (for-profit and non-profit) of child care in Alberta, The Muttart Foundation offers the following responses to the questions outlined in the *Early Learning and Child Care Funding Formula Approach – Discussion Papers* prepared by the Ministry of Children and Family Services. The responses provided align with the main policy actions previously outlined in the *Roadmap to a Quality Early Learning and Child Care System in Alberta*, prepared by early learning and child care stakeholders.²

The main focus of the responses provided is on centre-based child care, given that these services form the bulk of regulated child care in Alberta. The Foundation has not conducted a detailed review of the discussion paper on family child care and so is unable to provide more specific responses to the questions it raises for discussion. Broadly, the Foundation recognizes that separate funding formulas may be required for regulated family child care to accommodate the unique staffing and program delivery characteristics of these services, including their delivery in private home settings.

The new funding formulas the Ministry of Children and Family Services develops for regulated child care should aim to stabilize program revenues and improve the quality of early learning and child care. They should not, however, incentivize or support the 'financialization' of early learning and child care.

Transition to New Funding Formula – Implementation

1. *What are the most important things for government to consider through this implementation?*
2. *What implementation challenges do you anticipate operators, parents or government should expect as we transition to a primarily government-funded ELCC system?*
3. *What types of supports do operators require as the sector transitions to a primarily government-funded ELCC system?*
4. *Do the proposed principles of the ELCC funding formula approach make sense? What might you change or add?*

The transition to a new funding model for early learning and child care represents a significant cultural and technical change in the financing of service delivery. The move away from a primary reliance on parent fee revenues to cover the costs of service delivery to a public funding model will require

² Roadmap to a Quality Early Learning and Child Care System in Alberta. <https://muttart.org/resource/roadmap-to-a-quality-early-learning-and-child-care-system-in-alberta/>

significant changes in how child care providers receive, allocate and report on revenues. The transformation of service funding outlined in the *Canada-Alberta Canada-wide Agreement* makes the provincial government the primary ‘purchaser’ of child care services (covering between 80 to 90 percent of service delivery costs) on behalf of families, with the goal of meeting public benefit outcomes. This change further elevates the role of the provincial government in actively planning and managing service provision.

The significant reduction in parent paid fees resulting from new public investment effectively guarantees the demand for child care and provides service providers with potentially higher levels of revenue stability and security than they previously experienced under market-based approaches. Commensurate with these increases in financial security and stability, service providers who choose to access public funding under the *Canada-wide Agreement* will need to fully commit to the public policy goals outlined under the agreement, and ensure that their services provide families with equitable access to high-quality, affordable, inclusive child care.

As private providers of publicly funded services, service providers will need to meet additional and higher levels of transparency and reporting in respect to their allocation and use of public funds. The Ministry of Children and Family Services will need to provide service providers with new financial resources and supports to meet these accountability and reporting requirements. Ideally, these resources and supports will further enable service providers to transition to a more standard set of financial reporting requirements that will, in turn, enable the Ministry to collect valid and reliable data on service delivery costs across a range of programs and services.

To enable service providers to reduce parent paid fees, and remain financial viable, the Ministry of Children and Family Services should advance public funding for operational costs on a quarterly basis. Service providers would then be required to account for the allocation and use of public funding at the end of the quarter, with any overpayments or underpayments based on actual service costs being reconciled as part of the subsequent quarterly advance of operational funding.

The principles outlined in the funding formula discussion paper are reasonable starting points. The principles of accessibility and inclusivity require further development, however, and should commit to ensuring that all children and their families have equitable access to high-quality, affordable child care.

Reasonable Profit or Surplus

1. *What does reasonable profit mean to you? How might reasonable profit be further defined and monitored?*
2. *How can the future \$10 per day model create stability for operators?*

The increased public investments in regulated early learning and child care under the *Canada-Alberta Canada-wide Early Learning and Child Care Agreement* have significantly reduced the role of market forces in the organization and delivery of regulated child care, and provide a basis for remedying the longstanding market failures which have resulted in families having limited access to affordable, high-quality child care. The significant reductions in parent paid fees realized through the introduction of affordability grants and revised parent subsidy payments have made child care more affordable for the majority of families, and effectively increased the demand for regulated child care. These changes

suggest a reduced financial risk for service providers and, depending on the level and nature of supply-side funding support, an opportunity for them to benefit from more stable and sustained revenues.

The determination of what represents reasonable profits or surpluses for private service providers which deliver publicly funded (subsidized) services in largely non-competitive environments with a high level of demand for service requires a consideration of both public and private interests. Under *the Canada-Alberta Canada-wide Agreement*, the Government of Alberta has committed both to the ‘sound and reasonable use’ of public funds and to ensuring ‘that surplus earnings beyond reasonable earnings are directed towards improving child care services’. The *Cost Control Framework* released by the Government of Alberta in January, 2023, anticipates that service providers can achieve reasonable profit through ‘creating efficiencies in child care costs, while maintaining quality’³. The Framework also includes an option for service providers to offer ‘enhanced services’ at additional costs to parents, which would appear to provide a further opportunity for some service providers to generate a profit or surplus.

The variation in the nature and organizational structure of the private for-profit businesses that deliver regulated child care in Alberta makes the determination of what is a reasonable profit challenging. The anticipated or desired gross profit margin for a child care centre owned and operated by an individual or family, as a private business, will differ from that of a centre that is owned and operated by a larger corporate entity, which operates multiple centres. In the case of the former, the owner-operator is likely involved directly in the operation of the business or centre and will draw a salary or receive direct compensation for their work. In the case of the latter, the private owners and/or investors in the corporate entity will primarily be seeking returns on their investments (or economic rents) that match the level of risk they have assumed and/or the opportunity costs they have accepted by investing in the delivery of child care.

Broadly, it might be assumed that reasonable gross profit margins (revenue minus the cost of service) would be lower for private businesses which deliver publicly funded goods or services in primarily non-competitive markets than for those which deliver private goods and services in competitive markets. Based on this assumption, a reasonable gross profit margin for private businesses delivering publicly funded child care services within a relatively low-risk environment might be similar (or marginally higher) than the rate of return on a fixed income investment.

Core and Operational (Enhanced) Services

1. *With the goal of supporting high-quality child care for Alberta families, what services should parents expect under the \$10 per day model, and which should be optional (enhanced)?*
2. *What should be included in the guidelines for optional (enhanced) service? Why?*
3. *How might optional (enhanced) services be monitored to ensure they remain equitable and optional for families?*

A substantive body of research finds that children benefit from access to high-quality early learning and child care. Conversely, children receive little or no benefit from their participation in low or poor quality regulated child care. The importance of quality in regulated child care means that substantively all of

³ Alberta Cost Control Framework and For-Profit Expansion Plan. <https://www.alberta.ca/cost-control-framework-and-for-profit-expansion-plan>

those aspects of service delivery that support high-quality learning and care experiences for children and their families should be considered 'core' services as referenced within the *Cost Control Framework*, with 'enhanced' or 'optional services' those services or supports that are more discretionary, ancillary or subsidiary to the delivery of high-quality child care.

The elements of high-quality early learning and child care provision are well-documented in a large body of research literature, including work undertaken by the OECD as part of its *Starting Strong* series of publications. Broadly, these elements include the composition and nature of the workforce, the curriculum and pedagogy employed within a program, the nature and level of family engagement and the nature and design of indoor and outdoor environments and spaces. The Ministry of Children and Family Services may further determine that programs and services which serve more marginalized or vulnerable populations with exceptional needs require additional 'core services' to deliver high-quality, affordable child care as compared to programs or services which primarily serve children or families with more private resources. These additional 'core services' might parallel the 'wrap around' services offered in public schools which serve more marginalized or vulnerable populations. One particular service that might be considered 'core' for more vulnerable children and their families in early learning and child care is transportation to and from a service, while a second might be additional and/or dedicated staffing (e.g. social work staff or family liaison workers) to help families access other community supports and services.

The discussion of core and enhanced or optional services within the funding formula discussion paper includes specific reference to the provision of nutrition (snacks or hot meals) in Table 2. The importance of nutrition for all children's healthy growth and development means that nutrition should form a core service that is supported through public funding in all regulated centre-based child care programs.

Government support for the introduction and provision of what are referred to as 'enhanced' or 'optional' services, for which service providers can charge additional parent fees, should not result in the creation of different levels or tiers of child care services for families with different household incomes. *The Edmonton Council for Early Learning and Child Care* has prepared a brief which raises critical questions around the *Cost Control Framework* proposal for the introduction of enhanced or optional services for which service providers can charge parents additional fees⁴.

Proposed ELCC Funding Formula Approach

A fair and reasonable funding formula which supports the provision of high-quality, affordable child care must take into account the range and diversity of legitimate service delivery costs service providers incur. Service delivery costs will vary depending on the nature and size (number of licensed spaces) of a program, its location, as well as the profile of the populations it serves. The level and nature of the public funding the Ministry of Children and Family Services provides will need to be sufficient to support the delivery of high-quality early learning and child care in a range of service environments, with cost

⁴ Edmonton Council for Early Learning and Child Care. Questions About Alberta's Cost-Control Framework and For-Profit Expansion Plan. <https://www.ecelc.ca/publications-archive/summary-questions-about-albertas-cost-control-framework-and-for-profit-expansion-plan-n5h45>

controls and financial reporting requirements in place to ensure that service providers appropriately allocate and use public funding for public benefit.

The Ministry of Children and Family Services may see merit in reviewing the supply-side funding (or grant programs) used in other jurisdictions with longer histories of delivering publicly funded, regulated child care (e.g. the province of Quebec) as potential models for the development of a child care funding formula. It may further gain insights on how best to structure funding formulas based on the review of existing funding approaches used in related fields (e.g. the funding for Private Early Childhood Service (ECS) Operators provided through the Ministry of Education). The public funding for Private ECS Operators includes a 'base instruction' grant which is supplemented by further grants that take into account differences in service characteristics, including the populations served.

The Ministry of Children and Family Services will need to collect and analyze empirical data on the actual costs a range of service providers incur to help develop funding formulas that accommodate the range and diversity of service delivery environments. Valid funding formulas (and the amounts of funding provided for particular program costs) will thus take time to develop, with funding amounts subject to revision over time. The initial iterations of the funding formula will likely include some approximations, or averages, of service delivery costs, which the Ministry will then need to revise over time based on historic service delivery data.

One of the goals of operational funding should be to support improvements in the quality of services. Legitimate increases in service delivery costs linked to increases in quality, for example increases in the proportion or number of staff with higher levels of certification, should be matched by increases in operational funding. Where appropriate, the Ministry should also determine expenditure limits or caps for specific categories of operational costs including administrative overhead and payments for management related services.

Considering the specific areas of cost identified in the discussion paper, The Muttart Foundation offers the following comments and responses.

Programming Funding

A key requirement in providing programming funding will be the Ministry of Children and Family Services' determination that the programming a service provides meets children's developmental needs. At present, regulated centre-based services use a range of programming models and approaches, not all of which are effective in supporting young children's learning and development. The Ministry should, therefore, require service providers to provide documentation and/or evidence on the efficacy or effectiveness of their programming to be eligible for public funding support. This documentation should build on the information service providers currently include in their program plans.

The Ministry of Children and Family Services should require service providers to provide notice of any 'operating costs' that are either paid to a 'related business' or which represent 'non-arms length' transactions. The Ministry should regularly review and monitor these types of expenses or transactions to ensure that they provide reasonable value for money given the nature of the services purchased.

Service providers who support the inclusion of children and families with differing abilities, as well as children and families from different cultural groups or communities, should be eligible for additional programming funding.

Administrative Funding

Child care providers incur legitimate administrative costs to support the effective delivery of services. While caps on administrative costs are reasonable, the determination of these caps will need to accommodate the range in size and diversity of service providers. Broadly, administrative costs, as a percentage of operational revenues, may be higher in smaller organizations with single programs or services than they are in larger organizations which operate multiple services or programs. Further, large corporate organizations which operate 'chains' of centres or programs may have lower and or different administrative costs.

The Ministry of Children and Family Services will need to collect empirical cost data from a range of service providers to more accurately determine the appropriate amounts or thresholds for eligible administrative costs that can be supported through public funding. As with programming costs, service providers should be required to provide notice of administrative costs paid to 'related businesses' and or which represent 'non-arms length' transactions.

One administrative cost not referenced in the discussion paper that merits consideration is that related to evaluation or continuous quality improvement of service delivery – this might also be considered a programming cost. Consistent with the goal of advancing quality in early learning and child care, service providers might reasonably be expected to provide the Ministry of Children and Family Services with ongoing information and or evaluation data on service delivery. The Ministry may need to develop 'system-wide' protocols and infrastructure to help service providers collect data on the quality of service provision and report on service outcomes. The Ministry of Children and Family Services should require service providers to report on the quality of their services and they should be required to provide this information to the families accessing their services.

Facility Funding

The facility section of the discussion paper reports that, based on the findings from previous Ministry survey research, facility expenses vary significantly between service providers. The reported variability in facility related expenses suggests that the Ministry of Children and Family Services will need to carefully 'adjust' the facility funding provided to reflect the legitimate costs service providers incur. The Ministry will likely need to collect historic facility cost data from service providers to determine the appropriate public funding required to meet facility costs going forward.

As with programming and administrative costs, the Ministry of Children and Family Services should require service providers to provide notice of any facility related expenses that are paid either to a 'related business' or which represent 'non-arms length' transactions. The Ministry should review and monitor these expenses or transactions to ensure that they provide appropriate value for money given the fees charged.

The Ministry of Children and Family Services should also consider whether or not it will provide public funding to cover none, some or all of an organization's mortgage payments made on privately owned buildings or facilities. Public funding provided for facility expenses should not contribute to significant

private benefit for individuals or businesses through the acquisition of privately held real estate investments.

Human Resources (Early Childhood Education Staff) Funding

The central role that qualified, well-supported and appropriately compensated early childhood educators play in the delivery of high-quality early learning and child care means that the proposed funding formula must include significant investments to cover staff related costs. The allocation for staffing costs should form the largest single component of the public funding service providers receive and should cover a significant portion of their actual staffing costs.

The public funding provided for staffing costs through the funding formula should support the fair and equitable compensation of early childhood educators. At present, the compensation educators receive varies significantly across service providers. One mechanism or strategy the Ministry of Children and Family Services could use to support more equitable early childhood educator compensation is the development and implementation of a provincial wage scale that reflects educator level of education, experience and work roles or responsibilities⁵. The Ministry could also explore options for using the funding formula to provide early childhood educators with more equitable access to a standard range of benefits including paid sick time, health and dental insurance and defined contribution pension plans.

The funding formula should provide higher levels of public funding support for service providers whose early childhood educators have higher levels of certification and or specialized education. Similarly, programs or services which use enhanced or enriched staff to child ratios to deliver high-quality services and or provide services to support the inclusion of children and families with differing abilities should also be eligible for additional public funding to meet these higher staffing costs. The Ministry of Children and Family Services will need to monitor and review service providers' use of enhanced ratios to ensure that they are contributing appropriately to improvements in service quality.

Parent Fees

1. *What are the main issues you see with parent fees in the proposed funding formula approach? How might these issues be addressed?*

The Ministry of Children and Family Services' initial approach to reduce parent paid fees has resulted in inequities for parents. The introduction of flat-rate 'Affordability Grants' combined with a revised parent subsidy model did not address the historic differences in parent fees charged by service providers. As a result, some families continue to pay higher parent fees than others for what appear to be comparable services. The proposed funding formula, which will deduct parent fee revenue from the total amount of government funding, appears unlikely to address these inequities, with families who access child care from service providers which charge higher parent fees continuing to pay higher residual parent fees than those families who access services from service providers which charge lower parent fees.

⁵ The Association of Early Childhood Educators of Alberta has completed the preliminary research and design of a provincial wage scale for early childhood educators.

The provincial goals, outlined in the *Canada-Alberta Canada-wide Agreement*, of ensuring that families pay an average parent paid fee of \$15 per day in 2023/24 and \$10 per day by the end of the five-year agreement means that there will be some range in the actual fees parents pay. At present, the nature of this range is not clear, although based on historic fee data, it would appear that families accessing child care in Calgary, where parent fees have traditionally been higher, will continue to pay higher parent paid fees than families in other regions of the province.

To address the above inequities, the Ministry of Children and Family Services should work with service providers to develop and implement provincial child care fee guidelines for all licensed child care programs and services across the province. These guidelines would set thresholds for the maximum parent fees service providers can charge families, taking into account the range and diversity of service providers and variations in programming and service delivery designs. Provincial fee guidelines would further help to ensure that public monies allocated to reduce parent fees are used in a prudent manner.

A second challenge with the current approach to parent fee reductions (flat-rate affordability grants and a revised parent subsidy) is that those parents with the lowest household incomes are still required, in most cases, to pay a residual parent fee. For those families on very low incomes even a modest parent paid fee of \$10 per day may make regulated child care unaffordable and present a barrier to them accessing service. The Ministry of Children and Family Services should address this potential barrier to service by increasing the parent subsidy amounts families on low incomes receive, so that those families on very low household incomes pay no parent fee for child care. The implementation of provincial fee guidelines, as outlined above, would further assist in making child care affordable for lower-income families.

Concluding Comments

The design and implementation of a new funding approach for regulated child care remains central to the transformation of early learning and child care services anticipated under the *Canada-Alberta Canada-wide Agreement*. The historic reliance on parent fees as the primary source of revenue to finance the delivery of regulated child care within child care markets resulted in parents having only limited access to affordable, high-quality child care. It further resulted in the undervaluing of early childhood educators and their work. The move toward a more publicly funded and managed system of early learning and child care has the potential to address these challenges.

The direct public funding of services outlined in the *Cost Control Framework* previously released by the Government of Alberta in January 2023, and further developed in the funding formula approach discussion papers released in November 2023, provides an important starting point for designing supply-side funding approaches that support the delivery of high-quality, affordable early learning and child care. The initial supply-side funding approaches proposed, however, require much further research and development if they are going to enable the provincial government to reach the public policy goals outlined in the *Canada-Alberta Canada-wide Agreement*, while making the reasonable and sound use of public monies.

The Muttart Foundation's responses to the discussion paper questions presented in the current submission are informed by the large body of research that examines the organization, financing and

delivery of early learning and child care. They also take into account the main characteristics of the Alberta early learning and child care landscape, while remaining focused on the need to place the best interests of children and their families at the centre of the design and delivery of services. The increased public investments provided through the *Canada-Alberta Canada-wide Agreement*, and the effective repositioning of early learning and child care as a public good rather than a private service, bring with them additional responsibilities and accountabilities for those private organizations which receive public funding to deliver services to children and their families. The development of new funding formulas to provide eligible private service providers with sufficient supply-side funding to organize and deliver high-quality, affordable early learning and child care must also include appropriate mechanisms and controls to ensure that public funding is allocated and used in ways which provide an appropriate level of public benefit.