



OBSERVATIONS ON THE BC GOVERNMENT CHILD CARE FEE REDUCTION INITIATIVE

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Disclosure

Pace Accounting Inc. and Gerald Dragomir act as accountant and advisor to approximately 60 child care organisations plus an approximate additional 15 community centre and neighbourhood house organisations who operate child care programs. All organisations are currently recipients of CCOF (Child Care Operating Funding) and all are subject to the Child Care Fee Reduction Initiative (CCFRI). Our understanding of child care operations and our perspective on child care in BC is oriented to preserving and enhancing the operations of our current and future client base.

No partners or staff of Pace Accounting Inc. currently have investments in or children in child care that is affected by the CCFRI.

Any and all comments made in this report are the opinions of the writer and are subject to the impact of conditions contained in this disclosure.

The Writer

Gerald Dragomir has been a public practicing accountant for over 30 years and was made a fellow of his accounting society in 2012. Gerald has worked closely with child care organisations in the Lower Mainland since the beginning of his accounting practice. In May of 2012 Gerald was commissioned to prepare a report on Canada's only publicly traded child care corporation. During the process of writing that report extensive research was done on the child care situation in Australia during the period from 1990 to 2010. The outcome of that research forms a part of the thinking behind the comments in this report.



CCFRI – Who Benefits and at What Cost?

Those who cannot remember the past are condemned to repeat it.

Jorge Santayana

Introduction

In the early 2000's the Government of Australia embarked on a program to allow 'market forces' to influence provision of child care services in a much greater way. The government wanted rapid expansion of child care and increased 'choice'. They spent billions of dollars directly funding parents through tax credits and direct rebates. By the late 2000's Australia had experienced the greatest disaster in the provision of child care in the history of the country. Their program looked remarkably similar to this initial stage of child care funding reform that we are watching unfold in BC.

We had intended to have this report completed weeks ago. It wasn't possible to do that. The CCFRI program has been a bit of a moving target since it was introduced in the 2018 Provincial Budget. One of our most serious concerns about the program is that it will continue to be a moving target, not only through this initial implementation phase but through the life of the program. This is the first issue that we address in this report under the heading [Questions about the CCFRI Program](#).

Child care is essential to the economic stability of western culture. This is especially true with the rise in the cost of maintaining livable space in the major cities in the province. It is practically mandatory that both parents work to be able to maintain basic living standards. It is far more common now than ever that (both) grandparents are still actively working and can not be used as an alternative source of child care. It is absolutely critical that we, 1) not mess up the current child care system, and, 2) provide expansion of the current system to accommodate the massive demand for quality child care spaces. This is the second issue that we will address under the heading [Why the CCFRI?](#).

Child care organisations thrive on stability. Our decades of direct experience supporting the organisational and financial health of child care organisations provides the foundation for our observations.. Of course, you may say that thriving on stability is true about any organisation. Maybe so, but it is especially true of child care as it is organised in BC (and the rest of Canada for that matter). This is the third issue that we address under the heading [Managing Organisational Stability](#).

Child care is, rightly, highly legislated and regulated in BC. In fact, it is arguably more highly legislated and regulated than operations that carry substantially more safety, operational and environmental risk. Given all of the rules and regulations that a child care organisation must comply with, even small changes to the regime can cause significant disruptive impact. This is the final issue that we will address under the heading [Changing the Game](#).

Summary

Licensed child care in the Province of BC has been made an offer that it cannot refuse. While the CCFRI program is not mandatory, the **nature and impact of the program makes it absolutely mandatory to adopt the program from an operational perspective**. The program gives a 15%-20% fee advantage to organisations that opt in. The margins of very well-run child care operation are, if positive, between 1%-2.5% which means that any child care not opting in to the program will experience substantial losses as fee competition, which is the primary purpose of the CCFRI, takes effect.

The CCFRI will have an impact on child care in BC. In our opinion, here are the most important impacts on child care organisations in the province:



- Child care organisations will experience increased unpredictability. The short-term and long-term management of the CCFRI program is vague and incomplete. This will have the effect of the program ‘growing by feel’ as administrators figure it out as they go. There is a substantial risk that as the program evolves the original intent will be lost. A change in government will introduce substantial operating risk if the program is revised or reversed.
- The CCFRI is not designed to create a single additional child care space in BC. As noted in the report, the CCFRI may actually result in the reduction of child care spaces.
- It will not be any more materially advantageous to run a child care after this program than before, except if a child care organisation opts out or in the case where the care is unlicensed, in which case it will be at a significant disadvantage.
- The absolutely tied relationship in a child care between the amount of revenue that can be generated and costs that must be incurred because of staff ratios, mean that anything that disrupts that delicate balance will cause operational issues for a child care organisation. This core stability requirement must be continuously met by any program that is introduced. There is nothing in the CCFRI program that addresses this area of concern.
- Prior to the CCFRI child care in BC was run autonomously. The CCFRI program will remove the most significant aspect of that autonomy by requiring that fee changes be approved by the CCOF administrators. There are no rules or guidelines in place or suggested for how that process would happen.

Questions about the CCFRI Program

There are two things that are absolutely clear about the CCFRI program, the rates that will be paid per child/per organisation and who qualifies for those rates. The rest of the operation of the program is a lot less clear at this time. There are a multitude of questions for which there are not yet answers.

The CCFRI program represents a substantial change in the way that the province funds child care. Prior to this program it was up to the individual child care organisation to determine fee setting, wage rates, service offerings and governance methods. Any constraints on fees were determined solely by the market. After the program the primary constraint on fee setting will be the provincial government. With the provincial government now taking on the responsibility for determining child care fees in the province, management of a child care organisation will change. Here’s what you need to know:

- The Ministry will look at historical, current and future fees in order to determine qualification for the program. What is the process that will be used, no details have been provided?
- The Ministry will dictate acceptable fee increase rates based on ‘expected norms’. What is the exact process that the Ministry be using to determine the expected norms?
- Each year a child care organisation will need to reapply for the program. What will be the exact process for justifying fees for cost changes related to:
 - Wage rates negotiated during collective bargaining via a union agreement or outside of a union agreement;
 - Wages paid to management;
 - Staffing in excess of legislated minimums;
 - Provision of programs in excess of legislated minimums;
 - Operational costs;
 - Necessary replacement of capital items such as playground facilities, kitchens, etc.
 - Necessary reserves for long-term maintenance of facilities.
- The CCFRI program assumes a once-per-year window for fee increase and the supplementary materials suggest that there will be provision for changes in ‘extraordinary circumstances’. There is no definition of what extraordinary circumstances are, and no details of the process for

determining this. The use of the term extraordinary circumstances is relative to the person using the term. What constitutes extraordinary circumstances and what provisions will be available for a child care organisation to appeal an unfavourable decision in this area? The supplementary information goes further in making this process appear to be arbitrary by the Ministry further granting itself the provision that 'the Province, in its discretion, permit the provider to increase parent fees...'. This provision changes the role of the Ministry from a determiner of the requirements of safe, quality child care to one of ultimate financial manager. Does the Ministry intend to staff itself with people who are competent child care financial managers? Does the Ministry even intend to become the financial manager for Child Care provision in the province?

- New providers, or providers of expanded facilities will have no history of fee requirements for their programs. It appears that there are no provisions for managing this inevitable situation. What is the process for the Ministry in determining the validity of fees proposed where there is no history?

Why the CCFRI?

Let's be clear about what the CCFRI program is. Even though the funding is paid to child care organisations directly, this program benefits parents of children attending care and not the care organisation itself. The additional 10% portion that will be paid to the child care organisation for participating amounts to between \$0.55 and \$1.20 per child per day depending on the age of the child, not enough for carrot sticks and a juice box.

Aside from the obvious provision of a benefit directly to voters what role is the CCFRI designed to fulfill? In keeping with our previously stated need 1) not mess up the existing system, and; 2) to provide for additional quality child care spaces; where does the CCFRI fit in? Was there some foundational study that was prepared that determined that child care organisations were unreasonably gouging families through child care fee changes? We did some looking and could not find anything done recently that addressed fee rate changes of this type.

The absolute cost of child care is an issue and the CCFRI will address that problem in the short-term. However, this is only a short-term fix. Based on our experience child care operates on a cost-recovery basis. That is, the child care fee covers, more or less, just what it costs to operate. A few child care organisations have managed to amass a bit of capital and then, without exception, have used that capital to expand the number of spaces that they offer. The CCFRI, through managing fee increases, will effectively close off this creative avenue for expansion leaving the sector totally reliant on government for addition of capacity. In this way, the CCFRI will actually reduce or limit the number of spaces available.

Family child care and unlicensed child care are only marginally supported or not supported at all. These areas may suffer additional quality issues and/or may cease to be viable due to the impact of the CCFRI. Again, this may negatively impact the absolute number of spaces available.

The two other most important aspects of child care in the Province are not addressed by the CCFRI at all. The CCFRI will not create any additional child care spaces, in fact it may slow expansion as noted above. The CCFRI will not improve the quality of care and may cause a reduction in quality in Family and unlicensed care as they attempt to cut costs in order to maintain their current position.

Managing Organisational Stability

Child care organisations want to be able to offer the same level of care across the years. Most child care organisations do not resort to fee increases as a primary solution to economic problems. Even though controllable costs in a child care amount to less than 5% of the total cost of operating, most child care organisations will attempt to cut costs rather than raise fees. This does not always make the best economic sense. This reluctance to raise fees requires occasional significant fee increases to 'catch up' with



expenses that have increased while fees have remained the same. Because of this behaviour the historical fee changes may not be easily apparent without reviewing behaviour over a number of years. This requirement makes the review of past fee increases critical to the short-term and long-term financial health of a child care organisation. There has been no indication of just how the review process will work, creating a potentially destabilising situation for a child care organisation.

Negotiating collective agreements is probably the most difficult management area for a child care organisation. Having a dedicated and motivated staff is key to being able to have continuous stability in program delivery. Collective agreement negotiations can take 18 to 24 months. Traditionally these agreements have a retroactive or bonus provision backdating the agreement to the original contract date. This requires the child care organisation to guess what the agreement will be as much as 2 years before it is completed. This may mean increasing fees without related expenses in order to 'save' enough to fund the settlement or raising fees more than the agreement appears to require in order to pay for the past costs of the settlement when fees weren't raised. This is a complex process and adding a third party to the process in the form of the Province does not enhance stability in the child care organisation.

Changing the Game

So far, we have seen that the CCFRI program is likely to have several unintended consequences. There is one more area to consider. We have also seen that this is not the last change that is going to be made to the child care system in BC. By rolling out these changes piecemeal over time, child care organisations will experience a series of stability decreasing administrative shocks. By creating change in this manner the Province will put unnecessary pressure on child care management at a time when managing child care operations has never been as challenging.

This issue can be easily fixed by showing the child care sector in BC the whole program, right now, even though the intention is to implement the changes gradually. Give us a look and let us plan for the future. We may even have some useful insights into the best way to make this needed improvement.

