

**Not in the Public Interest:
Private Development and other Entrepreneurial Child Care Schemes**
A Briefing Note for Elected and Government Officials

The ability of communities and governments to work together to address the current child care crisis in Canada is under serious threat. Most families in Canada (outside of Quebec) do not have access to quality, affordable child care services today, yet false solutions abound. For example, some promoters, entrepreneurs and property developers are now proposing to build child care centres and lease them back to governments or to other operators in exchange for public guarantees of the lease payments.

Despite the promise to fix a system in crisis without using public dollars, be assured that the Canadian public will pay for these schemes in the end. While the proposed business plans make frequent use of the words 'quality' and 'affordability', in order to provide private investors with their required investment returns these and other corporate/for-profit child care expansion plans actually require low staff wages, high parent fees and/or government concessions and support through reduced quality standards or public guarantees.

Canadian governments, at all levels, must now take steps to protect and promote the public interest. For more than 25 years the Child Care Advocacy Association of Canada has continually urged governments to commit to a child care system in which public support maximizes the public goals of high quality, universal access and affordability. Assuming that governments would not deliberately prioritize private profits over public goals, this briefing note urges Canadian governments to:

- 1. Beware** of child care property development/leaseback schemes, proposals to expand for-profit child care and pressure to reduce quality standards.
- 2. Be proactive** in advancing public policy that is accountable for quality, affordable, accessible child care.

First, an important reminder:

Whether or not you personally (or the political party you serve) support(s) government involvement in child care services:

- Senior levels of government have signed both international and inter-governmental agreements committing to improve access to quality, affordable child care services in Canada. You have an obligation to uphold both the spirit and the intent of these agreements.
- Child care public policy is already on government's books, and public funding is already in place. You have an obligation to ensure that child care policy and funding are accountable for advancing the public goals of quality, access and affordability.
- Doing nothing is a policy decision. In this case, it's a bad one. Canada's lack of action on child care today will restrict our ability to act in the future, and may subject us to approaches that are publicly funded but not publicly accountable. You have an obligation to protect and promote the public interest.

Recommendation 1

- **Beware of property development/leaseback schemes, proposals to expand for-profit child care and pressure to reduce quality standards.**

Individuals, corporations and/or REIT's (Real Estate Investment Trusts) are currently lobbying governments with child care property development and leaseback proposals. While the specifics may vary, these schemes have common elements of concern that have contributed to the recent collapse of ABC Developmental Learning Centres Pty Ltd (ABC Learning) in Australia, *and to the dramatic rise in both the cost of child care and related government expenditures in that country.*

ABC Learning was the world's largest child care corporation. It is now in receivership, and significant questions are being raised about the role that child care property development and leaseback agreements have played in the corporation's demise. As we learn more about the current proposals and lobbying activity in Canada, our primary concerns are:

1. The terms and conditions of the proposals raise serious questions about government's ability to protect the public interest, and
2. The related budget and operating plans reveal why the public goals of quality, affordability and accessibility will go unmet.

These conclusions are based on a review of proposals on their own merits, without consideration of the individuals or groups behind them. Generally, the proposals suggest that:

- A private investment fund will finance, build, equip and own several large new child care centres and a separate organization will operate the centres. The operating organization will enter into a lease agreement with the fund for the use of the space.
- A provincial government will provide the same level of public funding to new child care centres as it does for existing centres (mainly, parent fee subsidies for eligible families and, in most provinces, operating funds such as staff wage enhancements).
- **Governments will provide legal guarantees to the centre owners** (the private fund) **committing to the required lease payments in the event that the operator defaults.** In other words, a public guarantee of private investment returns is proposed.

The operating budgets outlined in the proposals cast serious doubt that the public goals of improving access to quality, affordable child care services would be achieved:

1. Regarding quality, the budget proposed to one provincial government contained unusually high lease costs, absorbing more than 25% of total expenses. In fact, occupancy costs, management fees and expected profits together appeared to consume almost 40% of the operating budget. Only 50% of the budget was allocated for staff, the key indicator of quality in child care.

It should be noted that ABC Learning has reported that it allocates only 50% of its budget to staff wages and benefits, while small commercial operators in Australia spend about 60% of budgets on staff. **Non-profits in both Australia and Canada devote 80 – 85% of centre operating budgets to staffing costs.** Yet even with the vast majority of operating expenses devoted to staff costs, college-trained child care workers in Canada are notoriously poorly paid.

2. Regarding affordability, Canadian families already pay amongst the highest child care fees in the world. Nonetheless, there are indications that current fees would have to increase substantially in order to provide the required returns to private investors.

3. Regarding access, even the basic promise of net expansion in the number of child care spaces is overstated in the proposals. Early Childhood Education and Care in Canada 2006 indicates that approximately one centre closed for every 1.5 centres that opened during the year (as calculated from data table on page 52). So, without improvements to current policy and funding to address the fragility of child care services, it is likely that closures will continue to significantly offset expansion gains.

Therefore, it is our assessment that government involvement in property development/lease back proposals carries significant risks to the public interest. The similarities between the Australian experience and these proposals stimulate the following conclusions:

- Neither quality nor affordability will be achieved
- Growth in spaces will be offset by closures, particularly of small, for-profit operators as was the Australian experience
- Growth will be least likely to occur in less profitable areas and for less 'profitable' children (for example, children with disabilities, rural or isolated communities, infants and toddlers)
- The proposed new centres will not be any more financially viable than current child care centres. As a result, governments will have to step in with public funding for centre owners (the fund), which would divert it from improving quality and affordability for children and families
- The only likely winner would be the property development fund which would have real estate assets as a result.

Other threats to improving access to quality, affordable child care lie closer to home and may involve smaller organizations. Given that less than 20% of children in Canada, outside of Quebec, have access to a regulated child care space, some entrepreneurs see child care as a potential business opportunity. They seek government support through reduced quality standards (i.e. relaxing regulations such as licensing, zoning or bylaw variances or changes) and/or financial incentives (e.g. capital, operating grants) to open new or expanded for-profit child care programs.

These entrepreneurs have much in common with those promoting property development and leaseback schemes: the pressure for return on investment undermines quality (pressure to lower wages and standards), affordability (pressure to raise parent fees) and accessibility (pressure to serve 'profitable' families and communities). Yet, if they are unable to operate a successful business and the centre closes, the public investment is lost.

Given the high rates of centre closure previously described, and the lack of access to quality, affordable child care services in Canada today, it is clear that we cannot and should not rely on private individuals, groups and businesses - the current market-based approach - to solve Canada's child care crisis.

Recommendation 2

- Be proactive in advancing public policy that is accountable for quality, affordable, accessible child care

The current lobbying efforts across Canada for public guarantee of private returns on child care facilities is audacious, but perhaps not surprising given some governments' 'open door' to corporate, for-profit involvement in child care services. Yet, ironically, these lobbying efforts implicitly confirm the failure of Canada's current market-based approach to child care, as the property developers limit their involvement to facility provision with publicly guaranteed returns. They know that families want high quality, affordable child care services and that achieving these goals is not profitable without increased access to no-strings-attached public funding.

For many years, child care policy in Canada has been grounded in the hope that modest public funding of market-based incentives, such as parent fee subsidies and staff wage enhancements, will

stabilize and improve services. This approach has not worked. Despite successive governments' commitments to service improvement, most parents do not have access to quality, affordable child care today.

That is why the CCAAC advocates for direct government involvement in child care planning, funding and delivery in partnership with communities. And, that is why it is not enough to 'just say no' to child care property development and leaseback proposals, as we understand some governments have done. Nor is it enough to 'just say no' to capital grants for commercial operators, although this is an important step for BC, Alberta, Nova Scotia and New Brunswick to take.

It is imperative that all levels of government work to promote, support and advance a publicly funded child care system.

How? 'Just say no' to the expansion of for-profit child care services and centres.

The CCAAC recommends public or community ownership of new child care services and their assets and a publicly-funded system that is accountable to children, families and communities, not private investors. Only public or community-owned services will be accountable for using public funds solely to expand access, improve quality and make child care affordable. Existing, publicly accountable child care services (both not-for-profit and for-profit programs) should be 'grand parented' into the new system.

This position is evidence-based and incorporates the lessons from the many other countries with successful child care systems.

To achieve government's commitments to quality, affordable and accessible child care, the evidence recommends direct funding of licensed child care programs that are accountable for reducing parent fees, raising wages for trained staff and building inclusive, community-owned spaces according to public priorities.

In order to protect the public interest, governments must beware of child care property development and leaseback plans, proposals to expand for-profit child care, and pressure to reduce standards - and **be proactive** in advancing public policy that is accountable for quality, affordable, accessible child care.