

Child Care Project

Study of the Child Care Delivery System in the City of Greater Sudbury

Prepared for
Children Services Division
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Preamble

Operating deficit experienced by three of the childcare providers in City of Greater Sudbury has been a cause for concern. This study was initiated to examine the childcare providers and the environment in which they operate. One of the initial goals of the study was to investigate patterns in financial statements filed by childcare centres to utilize as a predictor of future deficit situation.

Childcare business in Sudbury, and very likely across the nation, is characterized by low margins and excessive short-term fluctuations in the level of costs and revenues. Early into the study it became evident that because of the particular nature of this business, last year's financial statement may not be an adequate tool of predicting financial deficit in the following year. Good managerial practices such as adhering to a realistic budget and periodical (monthly or quarterly) performance review would probably be the best tool available to the boards of childcare centres. As the research progressed, other issues of importance to the Children Services Division, such as the large number of rate structures, emerged.

For the benefit of readers not familiar with the licensed daycare industry in the City of Greater Sudbury some background material is presented that demonstrates the role of various levels of government, their obligations and their responsibilities. The report also highlights some critical issues that are industry wide and concern almost all childcare centres. Analysis of these issues and approaches to cope with them are also provided. To understand the technical terms and/or the acronyms one may consult the appendices to this report.

Executive Summary

This report has been prepared by the consulting firm of Ganjavi and Associates with assistance and input from the Children Services Division (CSD) of the City of Greater Sudbury and the representatives of licensed daycare centres. The features and findings of the study are:

- For the benefit of readers not familiar with the licensed daycare industry in the City of Greater Sudbury some background material is presented that demonstrates the role of various levels of government, their obligations and their responsibilities.
- Generally, the Early Childhood Educators (ECE) teachers earn low wages all across the province including in the City of Greater Sudbury.
- The Province provides some support, in the form of wage subsidy, to maintain the wages of all day care staff. The provincial support is assessed to be inadequate to deal with the extent of the problem. The regulation does not permit the City to move funds between wage subsidy and fee subsidy budgets.
- The licensed daycare is a relatively low profit margin business.
- Cost of wages is reported to be around 80% of the total cost of operating licensed daycare centres.
- The wage rate of the ECE at for-profit daycare centres on average is 37% lower than average wage rate of the not-for-profit centres.

- Other costs are widely varied among centres; in particular cost of occupancy depends on the arrangements made to use a physical facility.
- Recent changes in tax regulations requiring the not-for-profit organizations to pay property tax and other associated costs such as garbage removal charges has put more burdens on financially weak centres.
- One of the hazards in the daycare business is the high variation in demand level across all time horizons (i.e. variation within a day, within a week, and within a year). High levels of variation often result in periodic levels of utilization, which in turn results in financial losses.
- Two of the underlying causes of such variations are: increasing number of parents working part time jobs, and introduction of part-day or part-week kindergarten programs.
- Daycares that avoid deficit often pay lower wages. In fact, the difference between wages paid and fees collected is a very good predictor of financial outcome.
- Financial data provided annually by centres to CSD is often incomplete and not appropriate for analytical work.
- While all centres are experiencing some degree of financial discomfort, recent cases of financial deficit suggest that the centres with a combination of being large, independent, and located in outlying communities are more susceptible to financial deficit than the rest of the centres.

- One major way to assist the centres is to facilitate simple tools that are used for financial reporting.
- To simplify the system of billing codes provided to CSD by daycare centres, it is suggested that the current system of more than 160 codes be modified to a system of 25 codes.
- It is recommended that City Council bring the child care issues to the Province for the purpose of securing more financial commitment as well as changing regulations which prohibits the City from utilizing the provincial funds in a more effective manner.

1. Federal Government's Role in Child Care

The history of early childhood education and care in Canada begins in mid-19th century, but the most relevant developments have taken place in the last few decades. Canada does not have a national strategy for early childhood education and care (ECEC). The only direct intervention was in 1942 when the Federal government agreed (with Ontario and Quebec) to pay 50% of child care costs. This support was discontinued after the War.

Canada Assistance Plan (CAP) of 1966, a 50-50 cost sharing program, was the Federal government's second attempt to assist low-income Canadian families including their childcare concerns. CAP was eventually abolished in 1996 when Federal funds were integrated into blocks known as Canada Health and Social Transfer (CHST).

The Tax Act of 1971 permitted families to deduct their out-of-pocket child expenses for tax purposes.

In 1999, the federal government and 9 provinces (Quebec did not sign) signed the Social Union Framework Agreement (SUFA) to have a framework for the creation and modification of federal or joint federal-provincial programs. SUFA's primary activity has been the development of a National Children's Agenda (NCA).

After unsuccessful attempts to create a national child care program, the reality stands that currently childcare is basically under provincial jurisdiction.

However, on March 13, 2003, Federal, Provincial, Territorial Ministers Responsible for Social Services agreed on a framework for improving access to affordable, quality, provincially and territorially regulated early learning and child care programs and services. (Quebec did not participate in developing these initiatives because it intends to preserve its sole responsibility on social matters)

This initiative builds on the September 2000 First Ministers' commitment to improve and expand early childhood development programs and services. Under this Agreement, the Government of Canada is providing \$900 million over five years to support provincial and territorial government investments in early learning and childcare.

Governments have also committed to transparent public reporting that will give Canadians a clear idea of the progress being made in improving access to affordable, quality early learning and child care programs and services.

2. Provincial Government's Role in Child Care

With few exceptions, Canadian ECEC services (child care, nursery schools, and kindergarten) are under the jurisdiction of provinces and territories. Each of the provinces and territories (including Ontario) has a provincial program. The provincial program encompasses nursery or preschool, centre-based full day childcare, regulated family childcare and school aged care. The provincial childcare program provides legislated requirements for the operation of child care services and the funding arrangements.

In 1999, the Province of Ontario divested responsibility for the management and administration of Provincial childcare programs to 47 Consolidated Service Managers, many of which are local municipalities. Municipalities and local

governments do not have a constitutional standing in matters of childcare. Any responsibility in this area has been delegated to them by provincial governments.

2.1. Regulated Child Care in Ontario

The “Early Years and Healthy Child Development Branch” of “Integrated Services for Children Division” at “Ministry of Community, Family and Children Services” of the Province of Ontario discharges the provincial responsibility for childcare.

Consolidated Municipal Service Managers (CMSM) and District Social Services Administration Boards (DSSAB) are local agencies (mostly municipal governments) authorized to act on behalf of the provincial government in matters related to the administration of childcare.

The legislative foundation for childcare in Ontario is in the following acts: the Day Nurseries Act (DNA), Revised Statutes of Ontario (1990). The DNA has been amended by the Service Improvement Act (January 1, 1998), and several subsequent amendments and schedules as well as Ontario Regulation 262 (1990).

2.2. Child Care Types in Ontario

Unregulated childcare services may be provided in a home setting provided that the number of children served does not exceed 5 as per Provincial legislation under the DNA. This figure does not include the caregiver’s own children. In Ontario, and certainly in City of Greater Sudbury, a large majority of children of young age are cared for in unregulated childcare arrangements. The provincial

and municipal governments do not take responsibility for monitoring the quality or safety of these programs.

Family Resource Centers are set up to provide support services to parents and child care service providers (regulated or unregulated) in care giving role. The range of services may include: drop-in programs, resource lending libraries, playgroups, training opportunities and educational workshops. Family Resource Centers are legislated by the Day Nurseries Act.

Centre-based regulated child care (child care centre, nursery school, before and after school program) is group care for less than 24 hours per day, for five or more children under the age of 13 years or in case of developmental disability, under the age 18 years. Such operations require a license.

Regulated family childcare is an arrangement where care is provided for up to 5 children of the age 0-12 years old in a private home that is supervised by a licensed agency. No more than two children may be under two years, and no more than three children may be under three years, including the caregiver's own children.

Childcare for children with Special Needs Ontario does not have a written policy regarding children with special needs but encourages integration and inclusion of children with special needs into community care services. Integration services for children with special needs are funded by the Province with the goal of ensuring that parents of children with special needs are not expected to pay more than other families for childcare.

2.3. Licensing and Control

Centre-based childcare operations must obtain a Ministry issued license for their operation. Ministry Program Advisors based in Regional Offices, license, monitor and enforce the Act and its Regulations.

In the case of family child care operation; the agency responsible for the operation must obtain a license. The agency subsequently enters into an agreement with individual care givers to provide child care service. The agency provides supervision as stated in the regulations. The agency home visitor is required to conduct quarterly in-home visits. The agency is responsible for ensuring that legislated requirements are met.

2.4. Capacity of Child Care Operations

The Day Nurseries Act does not specify a size limit on childcare facilities, but there are limits on minimum staff to child ratio.

The maximum capacity of regulated family childcare is set at 5 children. No more than two children may be under two years, and no more than three children may be under three years, including the caregiver's own children.

Maximum capacity and minimum staff to child ratio for centre-based facilities are as follows:

| Age Group | Maximum Group Size | Minimum Staff: Child Ratio |
|----------------------------|-------------------------------|---|
| 0-1.5 years | 10 | 3:10 |
| 1.5-2 years | 15 | 1:5 |
| 2-5 years | 16 | 1:8 |
| 3 yrs and 8 mths. - 5 year | 20 | 1:10 |
| 5-6 years | 24* | 1:12 |
| 6-10 years | 30* | 1:15 |

* With Director's approval

2.5. Human Resources in Child Care Operations

Childcare services are either managed by profit-oriented establishments or by parent and/or community groups in a not-for-profit arrangement. The Act does not specify a particular role for parents however it requires a written statement specifying the role parents play in running a center. Some parents do play a role in various capacities such as providing direct hands-on assistance, fund raising, or membership on the board of directors.

The caregivers in a home setting are not required to have any special training unless working with children with special needs. In such a case the caregiver must hold a standard first-aid certificate. The caregiver must be older than 18 years of age. Home visitors are agency staff supervising the caregivers. They must have completed a postsecondary program in child development or family

studies, and must have at least two years of experience working with children of the same age and developmental level as the children under their care.

Supervisors of center based child care operations must have a two year diploma in early childhood education (ECE) from an approved College of Applied Arts and Technology (CAAT) or the equivalent, and at least two years experience working in a day nursery with children who are of the same age and developmental level as the children under his/her care. One staff member with each group of children must have a two-year early childhood education diploma from a CAAT or equivalent. The Director has the authority to waive the educational requirements for supervisors and other staff in a specific program.

2.6. Funding Child Care Services

The Province's financial contribution to the child care is either in the form of fee subsidy for low income families, or wage subsidy to defray the cost of running child care services. Provincial funding to offset the cost of operating child care centres and improve wages of childcare workers were introduced in early 80s.

The bulk of the revenues of childcare providers are from fees (subsidized or unsubsidized fees) and wage grants. Some childcare providers also engage in fund raising in the community.

The Day Nurseries Act was amended in January 1, 2000. One significant change stipulates that 20% of funding for wage subsidies, resource centres and special needs resourcing must be paid by the local government, whereas in the past 100% of those funds were paid by the provincial government.

The fee subsidy program in Ontario is administered by 47 Consolidated Municipal Service Managers (CMSM), District Social Services Administration Boards (DSSAB) and Native Bands. The Municipal Government of the City of Greater Sudbury is a designated CMSM.

The regular fee level is not regulated by the Act nor is the maximum subsidy level. Subsidy level is determined by a parent needs test. The fee subsidies are paid directly to service providers on behalf of eligible parents

3. Municipal Government's Role in Child Care

In 1999, the Province of Ontario divested responsibility for the management and administration of Provincial childcare programs to 47 Consolidated Service Managers, including the City of Greater Sudbury. The municipalities and local governments do not have a constitutional standing in matters of childcare. Any responsibility in this area has been delegated to them by provincial governments. The Municipal Government of the City of Greater Sudbury is one of the 47 Consolidated Municipal Service Managers (CMSM) in Ontario, designated to administer the child care programs on behalf of the Government of Ontario.

3.1. Funding

The regular fee level is not regulated by the Act nor is the maximum subsidy level. Subsidy level is at the discretion of CMSM. The subsidy level in City of Greater Sudbury is set at 100% of the cost of approved fees as long as those fees are not higher than the rate being charged to full fee paying parents. The

following are average fees paid to licensed childcare centers in the City of Greater Sudbury:

| Age Group | Daily Fee (Average) | Monthly Fee (based on 21 days) |
|-----------------------|--------------------------------|---|
| Infant | \$39.35 | \$826.35 |
| Toddler | \$29.47 | \$618.87 |
| Preschooler | \$27.16 | \$570.36 |
| Before & After School | \$12.73 | \$267.33 |

3.2. Municipal Role as a Customer

As a CMSM and administrator of child care funds, the Municipal Government engages in purchase of service agreement with some 30 childcare providers in the City of Greater Sudbury.

As a customer for childcare services, the Municipal Government is concerned with issues of quality, availability, and stability of services provided by childcare service providers. In particular, in the recent past a number of childcare providers have experienced financial difficulties. Any such occurrences can have an impact on quality, availability, and stability of their services.

4. Child Care Issues in City of Greater Sudbury

4.1. Background

Since the downloading in 1999 the City has been responsible to manage the funds that the Province provides for early childcare and education. There are four

major components of the provincial childcare funding: family resource, special needs, wage enhancements subsidy and fee subsidy funding. But the two funding lines that affect the operation of a day care centre the most are wage enhancements subsidy and fee subsidy. In the course of managing the above-mentioned funds the City engages in contractual agreements to purchase the services of 29 childcare agencies that operate 49 sites in the City of Greater Sudbury. As the manager of the childcare funds and as a customer (on behalf of the subsidized families) of the childcare system, the City is concerned about the quality and viability of the agencies' operation.

In spite of the efforts by the staff and the director of the City's Children Services Division to bring the newly downloaded system into a smooth operation, the experience of the past three years has proven that the system is in need of more help (financial and/or managerial). The issues that are currently of concern to the agencies as well as the Children Services Division will be explored shortly but to highlight major problems it is appropriate to mention that in recent years three of the relatively larger agencies (all three non-profit in nature) have experienced operational deficits, and recently a group representing the childcare industry in the City of Greater Sudbury have approached the Council requesting assistance. External accounting consultants have investigated two of the agencies experiencing deficit.

In a meeting organized by the Children Services Division, on February 28th, 2003, and attended by key staff and some potential consultants, problems of the childcare system were discussed. The following is a brief version of the points raised in the meeting of February 28th.

- There are 29 daycare operators operating 49 childcare sites located throughout the City of Greater Sudbury.
- The province and the City are aware of larger issues of: (1) market saturation and fragmentation in the number of centres in the City, (2) the maximum per diem that can be charged to parents, (3) changes to the needs test for those parents in need of subsidized child care services, (4) a decline in the number of parents receiving subsidy, (5) lack of waiting lists for subsidized spots.
- A growing number of centres facing financial difficulty and experiencing client and staff turnover. There are both community and political expectations that the City become involved and assist.
- What is required is a systemic review of the childcare system. A group of childcare representatives approached City Council and highlighted their concerns and issues with the current system. Staff has been asked to examine those issues and return to Council with a staff report about those issues and proposed approaches to resolve them.
- There is a desire for the development of a model (an effectiveness model) for the running of an efficient childcare operation. Questions to be addressed include: what are the fixed and variable costs that are important to consider, per diem rates that reflect the actual costs of providing services, adequate staffing ratios, administrative factors for the running of a successful business operation, a governance model including appropriate by-laws, policies and guidelines, the maintenance of variable and fixed costs in order to maintain reasonable per diem, a reasonable and appropriate size of operations in order to remain viable and an ongoing assessment of the market to remain competitive.
- The City would like to identify and raise the larger issues to the provincial level. The staff would like to see “all” day care operators remain viable and sustain operation. The operators wish to remain viable.

- Eventually, as a follow up to this process of consultation, the regional office of MCFCS would like to see a model to assist them in educating and helping boards and directors of the childcare agencies.

Subsequent to the meeting of February 28th the services of Ganjavi and Associates were hired to assist Children Services Division with the analysis of the existing system

4.2. Input to the Consulting Process

The consulting process started with information gathering. The following are the sources of information utilized in our analysis.

- A number of meetings with the director and key staff of the Children Services Division.
- Internal memos and reports prepared on the subject of childcare.
- Audited financial statements of a number of childcare agencies.
- Annual budget request forms of a number of childcare agencies.
- Consultant reports on two financially troubled childcare agencies.
- Two meetings with representative of childcare agencies.
- Written submissions from childcare agencies.
- The results of the recent survey of pay structure and per diem fees of childcare agencies in the City of Greater Sudbury.
- Internet resources of government agencies gathering data on childcare and childcare workers.

The above resources were utilized to assess problem areas and investigate potential alternatives strategies that may be utilized to cope with such problems. The first stage of our analysis has been centered on the content of agencies' written submissions as well as the points raised in the first meeting with their representatives.

4.3. Concerns of Childcare Agencies

A number of issues were raised in the meeting with day care representatives and few more were made in writing by those who could not attend or those who wanted to elaborate on their oral presentation. To facilitate comprehension of the issues they are grouped and presented in point form.

Bad Debt

- There are some subsidized clients who owe daycare centres for past services as full fee clients. Centers cannot collect the bad debt and tend not to refuse them service.

Capacity and Utilization

- Programs must be fully utilized to pay for all expenses.
- Capacity of some centres is not fully utilized.
- Lack of full capacity utilization is attributed to low demand in some instances and fragmented demand (i.e. part time and part day).
- Some centres need to expand capacity to cope with the waiting list.
- There is no funding available for capital expenditure.

Duplication

- The City and the Province both have presence in the day care field. Some human resources seem to be duplicated.

Employee Turnover

- Because salaries are low, and because annual increases either does not exist or are very low, there are an increasing number of employee turnovers.
- Wage disparity among agencies also causes employee turnover.
- A big pressure is getting and retaining qualified, quality staff, as there is disparity of salaries between daycares.

Eligibility for Fee Subsidy

- A number of families who used to be eligible for subsidy are excluded because of changes in eligibility regulations that now consider OSAP as income and RRSP of more than \$5000 as a cause for ineligibility.
- Only very poor and very rich can afford licensed day care services, the middle class are left out.
- In the past subsidies were attached to spaces but now the dollars are attached to children. This causes instability in funding for centres.
- Decision made on eligibility to qualify for fee subsidies are slow and day care centres lose potential business while waiting for these decisions.

Expenses Are Increasing

- Providing regulated, quality, and affordable childcare requires adequate financial support.

- Changes in regulations require the not-for-profit daycares pay property tax, garbage collection and recycle fees. This has been an additional financial burden for daycares.
- Support for operating funds has not increased in years while operating expenses have increased.
- Cost of working either at capacity or 10-15% below capacity is practically the same but a loss of 10-15% potential fees is substantial.

Fiscal year

- School board's fiscal year is September to August, daycares' fiscal year is January to December. Daycares that rent space from school board must pay their rent by August even if the rest of the fiscal year is in deficit.

Health and Safety

- Health and safety dollars is not a regularly budgeted item. Daycares cannot plan on it.
- Health and safety dollars presently cannot be used to repair and maintain playground facilities.

Infants and Toddler Issues

- Financing of infant and toddler programs is not financially viable.
- The current per diem rate for infants is not enough to maintain a viable operation.
- Infant and toddler capacity goes up by increments of 3 and 5 respectively (i.e. five toddlers per teacher); customers join one at a time. Daycares lose money on less than multiples of three or five depending on age category.

- Childcare programs are planned on an annual basis (12 month period). Because of age designation and definition, infants stay in the programs for 6 months. This causes scheduling problems resulting in low capacity utilization.
- For the six months gap until the child is 18 months parents need to look for other alternatives (i.e. unlicensed childcare / baby sitting).
- Newly extended maternity and parental leave of 12 months is a positive development. This will have decreasing impact on the demand on daycares for infant care.

Communication

- There is a need to educate and inform people who are interested to open childcare centres.
- Day cares need to be informed of the criteria to benefit from redistribution of leftover funds at the end of fiscal year.
- Public ought to be informed of the value of licensed childcare services through publicity and advertising.

License Duration

- Day cares are licensed once annually with specific designations for age groups. As situations change during the year this rigidity causes the day care centres to lose business and income.

Part Day and Part Time Programs

- Both part day (a fraction of day) and part time (a fraction of week) demands are bad for business.
- From a capacity utilization point of view part-day programs are problematic, especially when the part day stretches between a.m. and p.m.

- Junior Kindergarten alternates full day scheduling causing demand for part time spots at daycare centers.

Pay Equity

- Many agencies cannot afford to fund any pay equity.
- Pay equity funding stopped in 1999 but the burden of payment is still on centres.

Payments and Direct Deposits

- Waiting time for fee subsidy and wage subsidy payments is long.
- Direct deposit can reduce waiting for funds.

Per Diem

- The current per diem rate for infants is not enough to maintain a viable operation.
- Per Diem rates are too high to afford by many families.

Playground Inspection

- Inspectors come from out of town to perform playground inspections and day cares must pay their travel expenses. Local inspectors should do the job.

Policies and Regulations

- Provincial policies are too rigid, they must be made more flexible.
- Regulations ought to be relaxed to permit daycare agencies to be creative. Allowing daycares to charge by the hour is one example of flexibility.

Child to Teacher Ratio

- Child-to-teacher ratio for toddlers changes once you move beyond multiples of 5.
- Some child-to-teacher ratios are too low.

Rural Areas

- Because of long distance to travel, the daycares located in rural areas have difficulty attracting qualified teachers.

Special Needs

- Special Needs Resources for Program Assistants does not cover costs (i.e. the number of children with special needs are more than the number that are funded).

Training and Development

- Some centres cannot afford to provide training and professional development to their staff.

Wages and Wage Subsidy

- Wage Enhancement Subsidy dollars are calculated based on employee levels in 1992, today centers have much more employees and need more wage subsidy support.
- Some daycares do not receive wage subsidy at all.
- Not all daycares are treated equally when it comes to wage subsidy.

4.4. Analysis of Concerns of Childcare Agencies

Some issues raised by representatives of daycares require an initial commentary. This general commentary is provided to create a context for the detail analysis that follows this section. We may analyze the issues from three different perspectives, social, managerial and business perspective. Although some thinkers consider managerial and business perspectives to be equivalent, we do make a distinction between the two. The social perspective considers the impact of the issues on the entire society. Naturally, the children, their parents, the tax payers in general, the boards, the business owners, and childcare teachers would be a part of this collective. The managerial perspective focuses on the best practices to run an organization so that the goals and objectives of the organization is achieved in the most effective and efficient manner, whether the organization has profit motives or not. The business perspective is generally similar to managerial perspective with a difference that profit motive rearranges the goals and objectives of the organization.

The viability of daycare operations has social and business implications. Lack of a healthy daycare industry negatively affects the entire society in more than one way, and of course, as far as for-profit daycares are concerned, it is bad for business. If the state of balance in this service sector is left to market forces, after a period of shakedown some daycares will go under, the new ones will take stage, but the social aspect of the service may not be adequately addressed. This argument is the main thrust of calls for a national childcare program. Hence, issues such as poor pay scale of childcare teachers, high level of turnover among childcare teachers, lack of capital investment and capacity expansion, high level of per diem fees and inaccessibility for middle class, tight regulation to restrict access to fee subsidies, long waiting list for an open spot, have all social

implications. The solvency of day care operations, the struggle to stay out of a deficit position, the attempts to provide quality service have managerial and business implications.

The main focus of our study is the state of health of daycare industry in the City of Greater Sudbury. The issues raised by daycares inevitably will play some role and will be represented in our analysis.

5. Financial Analysis

When the provincial responsibilities for early child care education was transferred to the City in 1999, the Children Services Division (CSD) created a system of gathering financial data from daycare operators. There are several reasons for data gathering. The main reason is to have a basis for justifying the per diem rates charged by daycares. The secondary reasons included the state of the daycares' financial health, the assessment of needs for financial assistance, assessment of compliance with regulations, etc.

5.1. Financial Data

Currently CSD has two sets of financial data on daycares. One set is the copy of audited (and some times un-audited) financial statements filed by daycare centres. The other set is a spreadsheet table formatted by CSD and filed each year in support of request for subsidies. Some items of expenditure, which normally appears on financial statements are excluded from the CSD form and are not permitted for profit or loss computations (for details refer to "Reporting Guide for Service Providers" dated June 2002).

Given that each daycare has their own style of bunching up costs, the financial statements are often of little value to make a comparison of costs, looking for a pattern in cost structure. For example, if one were interested in determining cost of occupancy as a percentage of total expenditure, then items such as rent, electricity and water, interest part of the mortgage and few other items would be included. If the bank charges on the loans for the building and loans for vehicles and equipments were reported in one lump sum, then accurate estimate of occupancy cost would not be possible.

The idea of a unified form for all daycares is supposed to solve this problem. What we found is that not all forms have been completely and accurately filled. This indicates that some daycares either do not understand these forms, or it is not on their priority list to supply complete and accurate information.

Some of the deficiencies are lack of actual versus forecast costs, lumping of items together, changing items on the form, and at times supplying figures that seems to be exaggerated. In June of 2002, CSD prepared a document entitled "Reporting Guide for Service Providers." The point must be emphasized to the daycare operators that accuracy and completeness of data is of great importance to CSD.

5.2. Patterns of Performance

As it was indicated earlier the quality of financial data is not high enough to support a detailed analysis of patterns of performance. However, certain facts emerge out of the existing data. The emerging patterns include the following.

- The daycare business, in general, is not a high margin business.

- The for-profit daycares are generally in a better financial situation.
- The smaller daycares are generally in better financial situation.
- The daycares that are within the boundaries of the old City of Sudbury are generally in better financial situation.
- The daycares that are within an institution such as the Colleges are generally in better position to cope with financial shortfalls.

Putting the above findings together we conclude that *one should generally be concerned about the larger independent daycares that operate near the boundaries of the City of Greater Sudbury*. The readers must be warned that the keyword in the above statements is “generally” as the patterns are not as crisp as one would like them to be.

5.3. The Dynamics of Costs and Revenues

One of the initial goals of this research was to find a pattern of efficient cost structure that would have been used as a model to assist daycares to approach that state of perfection. The reality is that such a model may not be a single model and each business environment may have its own model of perfection. Not all of the daycares in the City of Greater Sudbury operate in the same business environment. We shall discuss some of the differences and hence the potential causes of financial difficulty.

Wage Rates

Wages are the largest single cost of operating daycares. As we stated earlier, due to inaccuracies and incompleteness of data, it is not possible to make a good

estimate of the proportion of this cost. The national and provincial estimates are about 80 to 85%. A survey of 1540 ECE graduates of 1999-2000, by the Ministry of Training Colleges and Universities indicates that the average annual pay is \$22,957. At 37.5 hours per week this is equivalent to \$11.77 per hour

Source: <http://www.edu.gov.on.ca/eng/document/serials/eprofile99-00/014e.pdf>.

This indicates that teachers with ECE designation generally earn low wages province wide.

A recent survey (summer of 2001) by CSD indicates that, in City of Greater Sudbury, the average of base wages for teachers with ECE designation (the bulk of the teachers) is \$13.79 per hour in the not-for-profit sector and \$10.10 per hour in the for-profit sector. The \$3.69 per hour difference constitutes a 37% difference. If employee cost is estimated at about 80% of the total cost, the difference in wage rates provided 30% cost advantage for the for-profit daycares. It must be noted that the figures are average values and not all daycares sustain such a cost advantage. Additionally, for-profit daycares do not receive as much wage subsidies as the not-for-profit daycares do.

The issue of low wage rates, inadequate and unequal wage subsidies, and high turnover rates were raised earlier. National studies by childcare advocates indicate that average pay for ECE teachers across Canada is substantially lower compared to licensed practical nurses (source: "You bet I care" by G. Doherty et al., page 79 <http://action.web.ca/home/cfwwb/readingroom.shtml>).

The big problem is that two equally desirable values are at conflict. Our social conscious dictates that our ECE teachers must be treated better, at the same time increasing the wages of these teachers will push the daycares, in both not-for-profit and for-profit sectors, out of business denying our citizens the ever

important daycare services. To achieve both goals simultaneously the wage subsidies funds must be increased. We shall refer to the wage issue under the heading of wage subsidy accounting.

Cost of Occupancy

This is the most varied component of total cost among the daycares. Some daycares have free space, others have purchased properties and pay mortgage installments, some have rented space at arms length, others have rented space but not at arms length, etc. In the coming sections we shall discuss the issue related to demand. The combination of low margins, variation in demand (and hence revenues) and long-term financial commitment such as high mortgages is a recipe for going under.

Added to the cost of space is the cost of maintenance, garbage removal and property taxes. The issue of additional cost of garbage removal and property taxes that have been imposed on not-for-profit daycares has already been raised.

Ability to React to Change

One of the requirements of being in business is accepting financial variation in one form or the other. When margins are high there is a cushion to absorb the shock of variations in business environment. When margins are low there is nothing to protect businesses from the ill effects of variability. In such cases adaptation and change in course are the only devices for staying out of harms way. The recent changes in the environments under which the daycare centres operate have put a great deal of pressure on those entities that cannot react to the change.

A substantial increase in the proportion of children who need part-day or part-time (few days per week) daycare services has created problems for daycare operators. The negative effects of this trend work their ways through the system in two ways. The part-day arrangement lowers capacity utilizations and hence lowers revenues. Part-day arrangement requires more efforts in human resource scheduling.

One of the potential causes for increase in part-day and part-time demands is introduction of part day and part week kindergarten programs by both English and French Boards of Education. The other factor is the recent trend in the economy that has shown shifts from full-time to part-time jobs.

In addition to the factors explained earlier there are other random factors that may act to bring negative impact. For example an unexpected leak in the roof that may cost \$10,000 to fix, or an unexpected legal conflict costing \$8,000 in legal fees are the events that can easily bring financial hardship for a daycare centre that does not have financial cushion to absorb them.

6. Alternative Solutions

The above discussions may give an impression that the childcare system is in a state that cannot be successfully managed. The reality is that even in the worst of circumstance there is room for action to alleviate the difficulties. Some alternatives, which are not necessarily mutually exclusive, are:

1. Provide managerial advice,
2. Emergency short term financial assistance,
3. Negotiate with the province, and

4. Restructure the daycare services.

6.1. Provide Managerial Advice

Our study of the documents on the operation of daycare centres indicates that some centres may benefit from tips on better management practices. Forecasting, planning, scheduling, and control are areas where additional knowledge and expertise may prove to be very valuable. Collaborative effort, at least on the part of not-for-profit centres, is an area that may prove to be beneficial to all parties. Children Services Division has plans to take measures to assist centres in achieving better management practices. Some potential areas are discussed below.

a) Data Credibility

In accordance with their legal agreement with the CSD, each centre must provide quarterly and annual financial data on operating revenues and expenses of the centre.

For CSD to be most helpful there is a need to obtain credible financial data. By credible we mean data that is complete, verifiable, and reasonable. Our search of the financial data currently available to CSD indicates a number of gaps. Creation and compilation of credible data not only helps CSD in planning their strategy to deal with early childcare issues, it also helps the childcare centres to have a better picture of their operation.

b) Cost Comparison and Justification

It is beneficial for centres (at least the not-for-profit centres) to compare their costs with other centres to find if some cost items are not comparable to similar

cost items of the other centres. As an example, if the annual cost of telephone services for two centres of similar size are \$3000 and \$6000 respectively, then the second centre may want to find out if there is some room for cost cutting in that particular area.

c) Deficit Budgeting

It is well established that the daycare business is not a high profit margin business. But, this fact does not justify budgeting a deficit under normal circumstances. Put it plainly, when a deficit is expected the most money losing part of the services provided by a centre must be terminated. Naturally, such an action has some social costs, but the boards cannot solve all social problems without adequate funding. The buck must be passed to higher levels where decisions on funding are made.

There are of course exceptions to the rule where deficit budgeting may be tolerated on a short-term basis. In such instances if a centre is contemplating to approach the City for assistance they should communicate their intention to CSD before and during their budget process. To approach the City for help at the end of the centre's fiscal year is a sign of bad planning and poor management practice.

Occasionally it happens that a budget with a very thin margin is hit with an unanticipated cost. For example of unanticipated cost is a roof starting to leak at the start of the winter requiring a \$15,000 fix. If the centre, in such a circumstance, decides to approach the City, it is better not to wait to the end of their fiscal year when their line of credit is exhausted. Early sharing of information provides an opportunity to look for sources of financial assistance.

The centres must understand that the City is not in the business of funding deficits and occasional assistance on a case-by-case basis should not create a habit of approaching the City at the drop of a hat.

d) Control Charts

Budgets that are not controlled are not budgets. There are often very simple but quite effective tools for budget control. We shall mention three charts in this section.

The first chart is a monthly revenue and expenditure chart where the monthly actual figures are plotted against monthly budgeted figures. The second chart plots year-to-date revenue and expenses against their budget counterparts. The third chart plots annual surplus and deficits for consecutive years to detect trends.

e) Wage Subsidy Accounting

There are a number of different opinions regarding the eligibility of centres to receive wage subsidies and the amount of such subsidy. Concerns raised in this area cannot be resolved without the province's participation in the debate and their eventual decision on the matter.

Meanwhile there is a system in place and most centres do receive various amounts of wage subsidy. As the administrator of the current wage subsidy fund, the City must be assured that the funds distributed among the centres are actually used to enhance, otherwise depressed, wages. To this effect, it is important that the centres report, annually, the breakdown of wages that would have been paid without subsidization and the actual wages paid. Naturally one expects that the difference must be equal to the amount of subsidy received.

This report benefits both the Children Services Division as well as the individual centres. The centres benefit from sensing the realities of their industry and actions that need to be taken to eventually reach a state of self-sufficiency. The Children Services Divisions benefit is realization that the funds under their administration have been properly utilized.

f) Advertising and the Internet

The main idea behind advertising is to increase demand for one's services either by diverting demand from competitors or by increasing the total demand that eventually benefits all service providers.

Experience of the childcare centres indicates that the overall demand for licensed daycare services in our community can only be increased if the cost to parents is decreased. This means that any advertising in the City of Greater Sudbury will only be able to shift demand from one centre to the other. For the small number of profit oriented centres that operate in the City this makes sense, but for the majority of centres that are not profit oriented such activities create a musical chair which is not free of costs.

Creation of a web page, by a neutral party (for example CSD) which features all childcare centres and their specifics in an objective and unbiased manner benefits the citizens of the community as well as the centres who can now save their advertising budget. The annual cost of maintaining a simple but informative web page must be a fraction of the total money spent by all parties on advertising.

6.2. Emergency Short-Term Financial Assistance

Other than the funds transferred to the City by the province for fee subsidy and wage subsidy, the City does not have other funds to share with the childcare centres. We stated earlier that the centres should not plan, or fall into the habit of, deficit budgeting. Having stated this, there are exceptional circumstances when some centres cannot avoid deficits. Such circumstance occur as a result of some unexpected expenses such as major repairs that cannot be avoided or legal expenses which are not part of the normal operation of daycares, etc.

One can justifiably argue that in a financially healthy industry such occurrences should not result in a deficit situation, and the reason for experiencing a number of deficit cases is due to the fact that the industry is not healthy. The end result of this argument is a demand for more funds, which translates to requests for more provincial funding. Until a long-term and permanent solution is proposed, the daycare centers that, regardless of their best efforts, experience deficit may knock on the City's door and ask for assistance.

With the understanding that such requests are made only on exceptional occasions and the fact that services provided are essential for the community, it would be advisable that the City considers such request. However, any assistance provided by the City should be contingent upon certain conditions that must be met by the requesting centre. The conditions may include but are not necessarily limited to the following:

- The centre must provide the City with credible information, as described earlier.
- The centre must agree to implement certain recommendations made by the City.

On some occasions, at City's request, the centre must relinquish certain amount of control over the management of the centre. The amount of control to be

relinquished will depend on the seriousness of the problems and will be determined by Children Services Division.

The parties involved (the centre, the City, and the province) need to work collectively in a negotiated manner to create a financial environment that avoids or reduces occurrences of financial difficulty in the first place.

6.3. Negotiate with the Province

Many people in the industry believe that the provincial and the federal governments have major obligations in the area of early childcare education that is yet to be discharged. Hence, regardless of other alternatives, negotiating with these two levels of government, in particular the provincial government that is currently allocating funds to the municipalities, is an option that must be pursued.

6.4. Restructure the Daycare Services

The concepts that are far from the current state of affairs are often called revolutionary ideas. Most people are often scared of revolutionary ideas. Such fears are not without foundation as the revolutionary ideas work extremely well in some instances and turn up to be a complete failure in the others.

One such extraordinary measure is creation of a single board for the entire region (or maybe a French and an English one) that operates in a manner similar to the Boards of Education. The most prominent advantage of a single board system is uniformity of wage rates, uniformity of program offerings and their quality, uniformity of per diem fees, better management skills for allocating facilities and human resources, optimization of facility locations, only one board

to interact with instead of current 29 centres, hence less demand on CSD resources.

Creation of a single board cannot be achieved at the City's will, as there is no legal foundation for such a move. But the City may convince the existing boards, through negotiation, that their objective would be better served if they create a single board. The province, on the other hand does possess the ability to dictate amalgamation as they have already demonstrated it in the case of hospitals and the municipalities that currently form the City of Greater Sudbury.

A scheme of this nature is prone to political foot dragging every step of the way. For such a plan to work the parties must be convinced of its benefits and in particular must be respectful of the rights of the few privately owned daycares. The actual transfer of assets, leases, and rental agreements are also challenges that should not be discounted.

7. Challenges Facing Children Services Division

The Children Services Division is faced with a number of challenges in the course of liaising with the daycare centers, their boards and owners, and in managing the wage subsidy and fee subsidy funds.

- CSD is a sounding board for continuous complaints from the centres that there is not enough funding to provide a quality daycare service in a hassle-free environment.
- The financial data provided by centres are often incomplete and less than perfect.

- Some of the precedents that have been set in the development of care codes are too complicated and require too much human resources to deal with.

We have already discussed the first two items of the above list. We shall now take a glance at the third item and take one particular area that justifiably needs rethinking. The fees that are paid to the centres by CSD, on behalf of the subsidized families, are determined based on a schedule that has been developed over many years. This schedule contains over 150 different services each one identified by its unique code. Once in a while, the centres create a new product and demand a new code. For example, if in the past the fees of a centre were based on a full or a half-day and now they introduce an hourly service; they want their new product to be treated in its unique way, which means the creation of new codes. Other communities that have faced similar problems have taken measure to reduce the number of categories to a manageable size. We are proposing a similar approach to the issue of childcare codes.

After careful study of the current schedule, collection of input from daycare centres and discussion with the staff of CSD, we are proposing a two stage change in coding system. In the first stage a single structure for fees will be adopted but different centres will be allowed to charge different fees. In the second stage, all centres would become subjected to the same level of fees. Subject to the judgment of CSD's staff and understanding by the centres, stage one may be skipped and stage two implemented immediately.

7.1. Stage One, a Single Rate Structure

The following table is the proposed structure among the fees charged for various services. While the structure between the fees is constant the individual centres

may charge their own appropriate fees. A brief description of the method to arrive at the proposed ratios is presented in Appendix 6. To find the table of fees for individual centres one must multiply each code's weight by the rate charged for preschool children for a period of 6 to 9 hours, that is the rate for service code P-9.

Childcare Codes

| Age Group | 9 to 12 hours | 6 to under 9 hours | 4 to under 6 hours | Under 4 hours |
|------------------|----------------------|---------------------------|---------------------------|----------------------|
| Infant Code | I-10 | I-9 | I-6 | I-4 |
| Weight | 1.534 | 1.304 | 1.050 | 0.569 |
| Toddler Code | T-10 | T-9 | T-6 | T-4 |
| Weight | 1.244 | 1.058 | 0.852 | 0.461 |
| Preschool | P-10 | P-9 | P-6 | P-4 |
| Weight | 1.176 | 1.000 | 0.805 | 0.436 |
| Kindergarten | K-10 | K-9 | K-6 | K-4 |
| Weight | 1.169 | 0.994 | 0.801 | 0.434 |
| School age | S-10 | S-9 | S-6 | S-4 |
| Weight | 1.146 | 0.974 | 0.784 | 0.425 |

Example: Assume the rate charged by a childcare centre for preschool children for a period of 6 to 9 hours is \$30.00. The maximum rates calculated for this centre, for other categories of service, would be calculated to be:

| Age Group | 9 to 12 hours | 6 to under 9 hours | 4 to under 6 hours | Under 4 hours |
|------------------|----------------------|---------------------------|---------------------------|----------------------|
| Infant | 46.01 | 39.13 | 31.51 | 17.06 |
| Toddler | 37.33 | 31.74 | 25.56 | 13.84 |
| Preschool | 35.28 | 30.00 | 24.15 | 13.08 |
| Kindergarten | 35.08 | 29.83 | 24.02 | 13.01 |
| School age | 34.37 | 29.23 | 23.53 | 12.74 |

If a centre does not offer the service identified by code (P-9) a close substitute may be utilized. For example, “YMCA” does not have 6-9 hours of preschool, for this center we use a close substitute. “Touch A Tout” charges \$29 for school age 6-9, and YMCA charges \$28 for the same service, so they are close. The rate for (P-9) code of Touch A Tout would be a reasonable factor to utilize in this scenario.

The suggested codes were computed based on the average rates structure within a childcare centre. One does not expect that the rates produced in this manner would be exactly the same as the current rates for all categories of services provided by a centre. However, we expect that on average the effect on each centre would be neutral, or near neutral. This means the decrease in rates on some services would be balanced out by increases in the others.

In the short term, the centres may require some time to adjust to the new system. In the long term all will benefit from a simple system of uniform fee structure. We should emphasize that common fee structure does not mean common fee rates. If the cost structure in the industry changes over time, the weights associated with each code may be adjusted to reflect the realities of the market place.

7.2. Stage Two, a Single Rate for all Centres

In this stage a single set of rates would be applied to all centres. The model to generate one set of rates for all centres would be the same model utilized to create a single structure, however the data utilized to compute the actual rates would be different. This last point probably needs further explanation. A glance at the table of standard deviations (Appendix 6) reveals that there are rate differences among the centres. A single set of rates must be high enough to encompass a large majority of centres. Additionally, there are some services (mostly infant and toddler) that are not offered by a large number of centres. The rates for these services must be high enough to encourage more participation and avoid withdrawal of services by those who currently offer them. Because of these two considerations the set of rates should not be set at the average level. Utilizing figures that are between 80 to 100 percentile of the distribution for each grouping should address the above concerns.

The following table has been derived with the above considerations. There are two points to observe in this table. First, an additional column for periods of more than 12 hours is added. This service may not be commonly offered or used at the present time, but with the trend toward more utilization of daycares, in particular by younger children, it is advisable to be prepared. The second point is that the estimated rates are rounded to the closest 50 cents.

| Age Group | More than 12 hours | 9 to 12 hours | 6 to under 9 hours | 4 to under 6 hours | Under 4 hours |
|------------------|---------------------------|----------------------|---------------------------|---------------------------|----------------------|
| Infant | 65.00 | 55.00 | 46.00 | 37.00 | 21.00 |
| Toddler | 49.00 | 41.00 | 34.50 | 28.00 | 16.00 |
| Preschool | 44.50 | 37.50 | 31.50 | 25.50 | 14.50 |
| Kindergarten | 45.00 | 38.00 | 32.00 | 26.00 | 15.00 |
| School age | 44.00 | 37.00 | 31.00 | 25.00 | 14.00 |

References

Martha Friendly, Jane Beach, and Michelle Turiano, "Early Childhood Education and Care in Canada 2001" University of Toronto, Dec. 2002.

APPENDICES

Appendix 1: List of Acronyms

CAAT: College of Applied Arts and Technology

CAP: Canada Assistant Plan of 1966. This plan was abolished in 1996

CHST: Canada Health and Social Transfer of 1996.

CMSM: Consolidated Municipal Service Manager

DNA: Day Nurseries Act of 1990.

DSSAB: District Social Service Administration Board

ECE: Early Childhood Education

ECEC: Early Childhood Education and Care

MCFCS: Ministry of Community, Family and Children Services

NCA: National Children's Agenda (the core of SUFA's activities)

OSAP: Ontario Student Assistance Program

RRSP: Registered Retirement saving Plan

SUFA: Social Union Framework Agreement of 1999.

Appendix 2: Descriptions of Child Care Terms

Centre based childcare: a childcare service that is offered at a location other than a private home

Childcare: a licensed arrangement to look after children in the absence of their parents

Day care: the same as childcare

Informal childcare: the same as unregulated childcare

Kindergarten: school programs for children of age 4 and 5 provided by school boards

Nursery schools: part day school readiness day care programs for preschoolers (usually parents are present on site)

Regulated childcare: a childcare program that is regulated under provincial Acts, and certified by means of a license

Supervised home childcare: a childcare service that is provided, for up to 5 children, at a private home under the supervision of a licensed agency

Unregulated childcare: childcare provided by a friend, relative or hired individual at child's or care giver's home. There is a limit of 5 children for such arrangement.

Appendix 3: Descriptions of Legal Terms

Canada Assistance Plan: CAP, a Federal program, was introduced in 1966 and abolished in 1996. Program was designed to assist low-income families.

Canada Health and Social Transfer: CHST, a Federal program, introduced in 1996 to transfer Federal funds to provinces for social, education and health programs in block form.

Consolidated Municipal Service Manager: CMSM is an agency at municipal level, authorized to act on behalf of the provincial government in matters related to the administration of many social services including childcare.

District Social Services Administration Board: DSSAB is an agency at district level, authorized to act on behalf of the provincial government in matters related to the administration of many social services including childcare.

Day Nurseries Act: DNA of 1990 defines and regulates childcare services in Ontario.

Director: Director is an employee of the Ministry appointed by the Minister as a Director for the purposes of the Day Nurseries Act

National Children's Agenda: NCA is the core of SUFA's activities.

Social Union Framework Agreement: SUFA was signed by federal government and 9 provinces (Quebec did not sign) in February of 1999.

Appendix 4: Child Care Types in Ontario

The legislation in Ontario recognizes three models of childcare:

Unregulated childcare services may be provided in a home setting provided that the number of children served does not exceed 5. This figure does not include the caregiver's own children.

Centre-based regulated childcare setting (childcare centre, nursery school, before and after school program) is group care for less than 24 hours per day, for five or more children under the age of 13 years or in case of developmental disability, under the age 18 years. Such operation requires a license.

Regulated family childcare is an arrangement where care is provided for up to 5 children of the age 0-12 years old in a private home that is supervised by a licensed agency. No more than two children may be under two years, and no more than three children may be under three years, including the caregiver's own children.

Appendix 5: Definition of Age Groups

Infant: a child of 0-1.5 years of age

Toddler: a child of 1.5-2.5 years of age

Preschool: a child of 2.5-5 years of age

Junior Kindergarten: a child at least 3 years and 8 months old

Kindergarten: a child at least 4 years and 8 months old

School age: a child of 6-12 years of age

Appendix 6: Computation of the Proposed Rate Structure

Children Services Division provided 24 tables of rates for 24 childcare centres. Some services in some tables had a range. In such cases the mid point was adopted for analysis. The mean and standard deviation for all cells were computed. Not all services are provided by all childcare centres. Representation in some cells have been very small.

Average of 24 tables

| Age Group | 9 to 12 | 6 to 9 | 4 to 6- | Under 4 |
|--------------|--------------|--------------|---------|--------------|
| Infant | 45.88 | 40.57 | 34.41 | 14.50 |
| Toddler | 37.55 | 31.73 | 25.23 | 13.75 |
| Preschool | 34.72 | <u>29.42</u> | 23.53 | 13.75 |
| Kindergarten | 34.81 | 29.49 | 23.46 | 13.42 |
| School age | 34.48 | 28.64 | 22.53 | 13.38 |

The bold values in the above table are not proper representatives due to small sample and unusually small or large standard deviation. A standard deviation of zero means that all values were the same, but in the following table zero is due to the fact that there has been only one entry (see table on page 48).

Standard Deviation of 24 tables

| Age Group | 9 to 12 | 6 to 9 | 4 to 6 | Under 4 |
|--------------|-------------|--------|--------|-------------|
| Infant | 5.43 | 6.94 | 8.99 | 0.00 |
| Toddler | 3.82 | 3.36 | 4.26 | 1.43 |
| Preschool | 3.34 | 2.73 | 3.77 | 1.43 |
| Kindergarten | 3.59 | 2.88 | 3.88 | 1.20 |
| School age | 2.65 | 3.34 | 3.38 | 2.00 |

The average value in cell P-9 (29.42 in this case) was taken as a basis of comparison. The ratio of each column and each row was calculated in comparison to the column and row containing P-9 cell. The ratios were averaged to make one column and one row of ratios. The unrepresentative values were not used to compute the averages.

The column and row generated in this manner were used to compute cell weights that are shown below.

Weights

| Age Group | 9 to 12 | 6 to 9 | 4 to 6 | Under 4 |
|--------------|---------|--------|--------|---------|
| Infant | 1.534 | 1.304 | 1.050 | 0.569 |
| Toddler | 1.244 | 1.058 | 0.852 | 0.461 |
| Preschool | 1.176 | 1.000 | 0.805 | 0.436 |
| Kindergarten | 1.169 | 0.994 | 0.801 | 0.434 |
| School age | 1.146 | 0.974 | 0.784 | 0.425 |

This structure will be kept intact, but for each centre the weights will be multiplied by the rate they charge for P-9 service (i.e. 6 to 9 hour of service for preschoolers).

One centre (YMCA) does not have P-9 service. For this center we use a close substitute. Touch A Tout charges \$29 for S-9 service, and YMCA charges \$28 for the same service, so they are considered to be close for substitution. Hence, the P-9 rate of Touch A Tout may be used as a substitute for P-9 rate of YMCA.

Using the computed weights to establish maximum rate of services for a centre that charges that charges 30.00 for P-9 service results in the following rates.

An Example of Rates

| Age Group | 9 to 12 | 6 to 9 | 4 to 6 | Under 4 |
|--------------|---------|--------|--------|---------|
| Infant | 46.01 | 39.13 | 31.51 | 17.06 |
| Toddler | 37.33 | 31.74 | 25.56 | 13.84 |
| Preschool | 35.28 | 30.00 | 24.15 | 13.08 |
| Kindergarten | 35.08 | 29.83 | 24.02 | 13.01 |
| School age | 34.37 | 29.23 | 23.53 | 12.74 |

It should be noted that the computed rates are the maximum that the City may pay for such services. If a centre increases their rate for P-9 service to an unreasonably high level they may not receive the full amount computed based on the above structure.