ECEBC | early childhood educators of BC

COALITION OF child care advocates OF BC

Bringing BC's for-profit child care operators into a $10aDay model

Technical recommendations for child care policy makers and the sector

Prepared by Eric Swanson, Third Space Planning | December 2024

Unlike K–12 education and health care — which have long been provided in BC as universal, core public services — child care has been historically left up to the market.[1] Reflecting this history, today two-thirds of full-day spaces in child care centres are operated by for-profit businesses.[2]

It's important to acknowledge the hard work, dedication and investment of these child care business owners upon whom many children and families depend.

At the same time, there are several accountability issues related to publicly funding the day-to-day costs of for-profit child care.

This article outlines those issues, and offers ways current BC policy could evolve to reasonably address them while pursuing an overarching goal of bringing all — or the vast majority of — current for-profit operators into the "two-pillar" $10aDay public operating funding model recommended for all licensed child care programs in BC. The model guarantees $10aDay fees for all enrolled families and fair compensation for all early childhood educators and other program staff.

This article reaffirms and updates elements of our 2022 Roadmap for $10aDay Child Care in BC.[3]

CONTENTS

The need for a two pillar public operating funding model for all licensed child care in BC

As described here, it's important for BC to follow the lead of six other provinces and territories (and counting) by implementing a "two-pillar" public operating funding model applied across the entirety — or the vast majority — of its child care system.[4]

The two pillars are: (1) set fees for all families (e.g., a maximum of $10/day for full-time care and $7/day for part-time care); and (2) set compensation for all child care staff (with compensation levels increasing with qualifications, years of experience, and supervisory/management responsibilities).[5]

A two-pillar model solves one of the biggest challenges with for-profit care — namely, the tendency for parent fees to be much higher in for-profit programs.[6]

However, to bring BC's for-profit child care operators *into* a two-pillar $10aDay model, several other issues must first be understood and addressed.

To bring BC's for-profit child care operators *into* a two-pillar $10aDay model, several other issues must first be understood and addressed.

Accountability issues associated with for-profit child care

The following issues can all be understood as distinct but interrelated aspects of "accountability," where accountability means the efficient, effective and transparent use of public/taxpayer funds. Accountability is a key concern whether child care is delivered by public institutions, non-profits, or for-profits. However, there are particular accountability issues associated with for-profit child care:

1. Annual profits

A driving purpose of for-profit businesses is to generate an annual profit/return on investment. In many sectors (e.g., technology, retail), the profit motive and competition can lead to efficiencies and innovations that produce higher quality products, at lower overall cost, than public or non-profit delivery might achieve. However, this is less likely to be the case in care-centric sectors like child care or elder care. Quality child care is largely determined by the quality of the educators and staff (e.g., their qualifications and experience) and the quality of the physical environment, and there are intrinsically fewer opportunities for cost savings or innovation on either of these two factors, without compromising quality.

This means that any public operating funding diverted into annual child care profits risk being largely "wasted/ineffective."[7]

In other words, if one was to see a for-profit operator in a two-pillar funding model consistently earn significant annual profits, this would generally not be a sign of some kind of quality innovation, but rather a sign of inefficiency/leakage in the public funding model and/or a *compromised* quality of care.

2. Lower quality of care

Quality varies across all child care programs (some better, some worse). However, research from Canada and around the world consistently shows that — overall — for-profit programs are associated with lower quality care than public and non-profit programs,[8] which ties back to the discussion about annual profits, above.

3. Added fees

One of the ways child care businesses seek annual profits, outside of public funding, is to charge added fees to parents for things like meals, uniforms, real-time camera access, transportation, art supplies, etc.

Issues with these added fees include:

a. Price gouging — e.g., charging additional fees for 'extra' hours of care (e.g., beyond 3 or 4 pm) that are typically included in basic parent fees in most programs. Or conversely, charging typical parent fees for programs that operate for fewer hours than typical programs.

b. Failure to deliver — charging a fee for a service that was not actually delivered, or delivered below quality expectations, with little recourse for families (e.g., charging added fees for "gourmet" lunches when in fact, normal food is served).

c. Mandatory added fees — fees for additional services that are not, strictly speaking or practically speaking, optional. For example, field trips that require the presence of all staff such that individual families cannot opt-out without removing their child from care.

d. Added fees for publicly-funded services — charging additional fees for services that are eligible for free/publicly-funded delivery. In the worst case, where the operator is already receiving public funds to deliver these services (e.g., inclusion supports).

In short, added fees can undermine affordability, access, equity and inclusion.

Instead of allowing added fees, BC's public funding model should pay for core aspects of quality like meals, inclusion and cultural programming supports, necessary transportation (like with schools), and then provide an amount of discretionary spending that programs can use as they see fit to advance programmatic diversity, quality, and parental choice.

4. Related party contractors

Another way child care businesses earn annual profits in publicly-funded systems is indirectly: through related-party contractors.

For example, a child care operator may contract with a janitorial service or food delivery service that they themselves own (in whole or in part). This becomes an issue if the contractor business is able to charge top-of-the-market or above-market rates and yet still have this cost covered by the public funding model. The issue is exacerbated e.g., in situations where child care chains can utilize self-owned contractors in multiple programs, thereby multiplying the profit-taking/public loss.

Another example is where a child care operator sets up a shell non-profit society that can receive public capital funds for a new facility, but then contracts the actual delivery of child care services back to their for-profit business.

5. Private real estate

In BC, the K-12 education system is anchored by a standalone, public capital budget — creating publicly-owned schools with no private mortgages or leases required. Unfortunately, this still isn't the case for child care in BC. Many current — and new — child care facilities continue to involve private mortgages and leases.

To convert BC's child care system to a two-pillar model, these existing mortgages and leases must be paid. However, publicly funding these ongoing payments is associated with several related issues:

a. Private commercial mortgages can carry higher interest rates than if the government borrowed money to build or buy a facility itself. Whether this interest is paid directly (by publicly funding operators' mortgage costs), or indirectly (by publicly funding operators' lease of financed properties), the inefficiency is the same.

b. Publicly funding the principal portion of child care mortgage payments means that a portion of public funding — every year — is being converted into growing private real estate equity for an individual or corporation. These gains in real estate equity can, by themselves, incentivize the expansion of for-profit child care (even if all other sources of profit are minimal) and have become a significant issue in other jurisdictions.

c. If a child care operator knows their mortgage or lease will be covered through public funds, there is less incentive to find/negotiate/renegotiate the best rate, and in the case of leased facilities, there is more incentive for the owner to maximize the lease costs.

d. If a child care operator owns their facility (or it's owned by a related party), they may wish to charge themselves rent and have this cost publicly covered by the child care funding model. In this scenario, the incentive is to charge as high a rate as possible (i.e., there's an inherent conflict of interest). Even if the rate reflects fair market value, covering these costs can encourage a business model focused on buying up underperforming/ distressed commercial properties and converting them into relatively low-quality child care spaces (e.g., strip mall locations).

6. Less stable care

Like all child care operators, for-profit child care businesses recognize the need in their community and are often passionate and dedicated about meeting that need. However, for-profit child care is inherently less stable than public or non-profit child care because the individual circumstances and desires of private owner(s) and/or investors are more subject to change than the collective, codified missions of non-profit boards and/or the service mandates of publicly accountable institutions.[9]

This concern is exacerbated when the profit model of the child care business is dominated by the accumulation of real estate equity and/ or when its expansion model is fueled by unsustainable debt: in the former instance for the profit to be realized the property must be sold, and in the latter instance the property/ business must be sold for debts to be paid (outside of a public bailout).[10]

This means that public funds spent on for-profit operators produce less stable/reliable care.

For-profit expansion

Because of the kinds of accountability issues detailed above, it is important for BC's public operating funding model(s) to not inadvertently encourage the further expansion of for-profit child care centres[11] and for BC's public child care capital funding — for new spaces — to remain limited to public, nonprofit and Indigenous expansion.

It is also for these reasons that the current Canada-wide child care agreements largely prioritize expansion in public, non-profit, and in some cases home-based settings.[12]

Striking a reasonable balance

As discussed above, BC should avoid further expansion of for-profit child care centres. However, to reach its goal of a high-quality universal system, converting the vast majority of existing for-profit child care programs to a two-pillar model must be a government priority.

To reach its goal of a high-quality universal system, converting the vast majority of existing for-profit child care programs to a two-pillar model must be a government priority.

In doing so, there is no “perfect answer” to the accountability issues detailed above.

Rather, the goal — recognizing BC’s current reality of a for-profit-dominated system — should be to strike a reasonable balance that:

- Quickly brings all (or the vast majority) of existing for-profit operators into a two-pillar model, so that all families can benefit from set fees and all educators and other staff can benefit from set compensation.
- Includes accountability guardrails, with a commitment to improve these over time.

Below, we offer ways current BC policy could evolve to strike this balance.

Options for evolving current policy

As of writing, the closest thing BC has to a two-pillar public funding model is its three different $10aDay operating funding models, in use for about 15,000 spaces (approximately 10 per cent of licensed spaces in BC):

- Version 1 (revenue replacement model) — only has set fees and builds in the ECE wage enhancement (and is likely being phased out in April 2025);
- Version 2 (eligible expense model) — only has set fees and builds in the ECE wage enhancement; and
- Version 3 (a new “Operating Funding Model/OFM” that is being tested with a very small number of operators) — has both set fees and a wage floor for early childhood educators.

As of writing, the details of Version 3 were circulating, but not yet public, with the number of participating sites set to expand in 2025. As such, references to “current policy” in this article mean Version 2 (2023 intake).

Below, we describe how BC’s Version 2 $10aDay operating funding model currently integrates for-profit child care businesses, and ideas for how this integration could be improved in a two-pillar model.

Home-Based Centres

The BC government uses the terms “home-based centre” and “home-based provider” to refer to child care programs where the provider lives in the home/on the same property where the care is being provided. Home-based centres are predominantly for-profit businesses.

Current BC government $10aDay policy	Ideas to bring more home-based centres into a two-pillar model, with improved accountability
Can receive public funding to cover mortgage and other home expenses, calculated using the “Proportional Use Calculation” (see example on p. 6 of the manual).	Current $10aDay policy strikes a reasonable balance.
Home-based providers are required to declare a wage/salary “comparable to the wage of an ECE or Child Care Manager” (which they are then paid). There is no publicly-available clarification of what this means (i.e., a range of comparable wages).	Compensate home-based owner operators with standardized Child Care Manager wages and benefits set out in a province-wide wage grid.
Cannot receive public funding for larger home/capital improvements.	Publicly fund the cost of these improvements (which does not include capital *expansion* i.e., the creation of new spaces), if they advance BC’s Child Care Facility Design Guidelines, via the Proportional Use Calculation used for other expenses. Above a specified cost threshold, use a lien or other contractual option to recoup public funds at time of property sale (taking into consideration depreciation of the improvement over time).
All other expenses eligible for public funding as per Appendix A in the current $10aDay manual.	Current *eligibility* seems reasonable, though the exact funding model (especially the amounts) will require ongoing adjustment to keep operations feasible without enabling over-charging/over-payment.
Operators able to retain a 5% surplus (same allowance as non-profit, public, and Indigenous providers).	Current $10aDay policy strikes a reasonable balance.
Can charge added fees for “specialized instruction,” but these fees must be set on a cost-recovery basis.	Eliminate added fees, provide an amount of discretionary operating funding that can be used to offer unique services to all children.

Home-based centres are predominantly for-profit businesses. One idea to bring more home-based centres into a two-pillar model is to compensate home-based owner operators with standardized Child Care Manager wages and benefits set out in a province-wide wage grid.

Corporations, partnerships, or sole proprietors (not home-based)

The BC government uses this category to cover all other for-profit child care providers.

Current BC government $10aDay policy	Ideas to bring more corporations, partnerships, and sole proprietors into a two-pillar model, with improved accountability
Can receive public funding to cover leases with an arm's-length third party.	Keep the same (in order to facilitate conversion to a two-pillar model), but explore *future* options where the government offers to assume the lease or buy the property to address continuity of care and funding efficiency issues. Continue to ensure that leases do not exceed fair market value.
Cannot receive public funding to cover leases with a related/non-arm's length party.	Retain this exclusion for now (affected operators can still join a two-pillar funding model and have *other* expenses covered). There is reason for affected operators (a very small proportion of operators fit into this category) to be upset with this exclusion because there's not *necessarily* any difference in system outcomes between publicly funding an arms-length lease vs. an equivalent non-arms-length lease. However, it is more complicated to address the inherent conflict(s) of interest. The cohort of for-profit operators to which this circumstance applies could therefore be thought of as one of the final cohorts to actively bring into a two-pillar model, once/if sufficient accountability options have been developed.
Cannot receive public funding to cover mortgages.	This must change to convert BC's system to a two-pillar model. Options include: • Publicly fund these mortgage costs, but then — through some contractual or lien-based system — recoup all publicly-funded mortgage principal payments at time of sale (adjusted to reflect assessed real estate gains/losses). • Government offers to assume the remaining mortgage, acquiring the associated share of public equity in the centre (i.e., the centre would become a jointly-owned property). • In association with the previous two options, and in the interests of maintaining continuity of care, the government could require a right of first refusal be placed on the facility title upon initiation of the associated operating funding agreement. Such that the government is able to preferentially purchase the property/remainder of the property if the private owner wishes to sell. • Government offers to buy the facility at fair market value (e.g., if the government deems the centre to align with its facility design guidelines).
Cannot receive public funding for larger capital improvements.	Publicly fund 100% of the cost of these improvements (which does not include capital *expansion* i.e., the creation of new spaces) if they advance BC's Child Care Facility Design Guidelines, but via lien or some other contractual option require these public funds to be repaid at time of property sale (taking into consideration depreciation of the improvement over time).

Corporations, partnerships, or sole proprietors (not home-based) continued

All other expenses eligible for public funding as per Appendix A in the current $10aDay manual.	Integrate a wage grid for educators and other staff (including pensions and benefits). Current *eligibility* of other expenses seems reasonable, though the exact funding model (especially the amounts) will require ongoing adjustment to keep operations feasible without enabling over-charging/over-payment.
Can retain a 3% surplus/profit.	Consider increasing to 5% to align with allowable non-profit surplus, and to help encourage existing for-profit operators to opt-in to a two-pillar model. But only if there is a mechanism to recoup public funds spent on mortgage principal payments and capital improvements (see above), i.e., a mechanism to prevent public funds being lost to private real estate profits.
Can charge additional parent fees for "specialized instruction," but these fees must be set on a cost-recovery basis.	Eliminate added fees, provide an amount of discretionary operating funding that can be used to offer unique services to all children in the program.

Not-for-profit Centres

While this article is focused on how to bring the bulk of BC's for-profit child care operators into a two-pillar model, in the interests of fairness and to minimize the conversion of public funds into privately held real estate equity, we suggest that not-for-profit programs be treated the same as for-profit programs when it comes to privately held mortgages and real estate.[13]

Current BC government $10aDay policy	Ideas for improvement
Can receive public funding to cover leases with an arm's-length third party.	Keep as-is (same as for-profit businesses).
Cannot receive public funding to cover leases with a related/ non-arm's length party.	As with for-profit operators, retain this exclusion until accountability mechanisms can be developed that address the inherent conflict(s) of interest. Then bring these operators into a two-pillar model
Can receive public funding to cover mortgages.	Once accountability mechanisms are developed to enable public funding of mortgages held by for-profits, apply those same mechanisms/offer those same options to non-profits (e.g., cover non-profit's mortgage costs, but then recoup publicly-funded principal payments at time of sale).
Cannot receive public funding for larger capital improvements.	Publicly fund 100% of the cost of these improvements (which does not include capital *expansion* i.e., the creation of new spaces) if they advance BC's Child Care Facility Design Guidelines (benefiting children and educators), but via lien or some other contractual option require these public funds to be repaid at time of property sale (taking into consideration depreciation of the improvement over time).

Catalyzing the switch

A two-pillar funding model is arguably *essential* to achieving key goals of BC's child care system, namely: (a) guaranteed affordability for all families and (b) guaranteed fair/competitive and equitable compensation for all early childhood educators and other staff.

None of BC's current operating funding programs achieve both of these goals (e.g., CCOF, CCFRI, ACCB, ECE-WE, the existing $10aDay models, etc.). As such, no operator (including for-profit operators) should be given the option of continuing with the existing public funding models over the long-term.

Rather, once the province has designed a two-pillar public operating funding model that ensures continued feasibility — and accountability — for a majority of operators, it should catalyze the conversion by giving these operators a deadline to either opt-in to the two-pillar model, or opt-out of public funding entirely. After the deadline, new child care programs should not be guaranteed access to public funding unless they align with a clearly-communicated provincial expansion strategy.

Notes

1 This decades-long approach made child care difficult-to-find, expensive and of vastly uneven quality, perpetuated chronic undercompensation of educators and child care staff, and provided precious little choice and reliability for families. Beginning in 2018, and later with funding from the federal government, BC started transitioning to a universal child care system more akin to K-12 education and health.

2 Martha Friendly et al., "Early childhood education and care in Canada 2023," Childcare Resource and Research Unit, 2024 (p. 97).

3 "2022 Roadmap for $10aDay Child Care in BC", CCCABC and ECEBC, 2022 (pp. 12-14).

4 Eric Swanson, "A Two-Pillar Model: Set Fees for Families and Set Compensation for Staff – Technical Recommendations on Child Care Operating Funding for Policy Makers and the Sector," CCCABC and ECEBC, 2024.

5 With BC's Affordable Child Care Benefit decreasing fees further for lower-income families. Standardized, fair compensation for educators should include a wage grid of at least $30–$40/hour, along with comprehensive benefits and pensions, for example as described in: Eric Swanson, "Early Childhood Educator Compensation in BC: Spring 2024 Update," CCCABC and ECEBC, 2024.

6 David Macdonald and Martha Friendly, "Measuring Matters: Assessing Canada's progress toward $10-a-day child care for all," Canadian Centre for Policy Alternatives, 2023. Figure 7 (p. 45) shows that of the BC cities included in the analysis, parent fees in for-profit programs were 66% to 236% higher than fees in non-profit programs in 2022. A two-pillar funding model would equalize all fees at the same affordable level while simultaneously ensuring fair compensation for child care staff and owner-managers.

7 This assumes fair compensation has been paid to owners for time spent managing the program, and public funding is available for facility maintenance and necessary capital improvements such that large[r] annual surpluses are not required to fund these costs.

8 For example, refer to: (1) "What research says about quality in for-profit, non-profit and public child care," Childcare Resource and Research Unit, 2011. (2) Martha Friendly et al., "Risky Business: Child care ownership in Canada past, present and future," Childcare Resource and Research Unit, 2021.

9 For example, non-profit child care centres in BC were 97 times more likely to remain open during a four year study period than for-profit centres: Kershaw, P., Forer, B. & Goelman, H., "Hidden fragility: Closure among child-care services in British Columbia," Human Early Learning Partnership, UBC, 2004.

10 ABC Child Care in Australia is a famous example of this, described by: Elliot Haspel, "The End User is a Dollar Sign, It's Not a Child: How Private Equity and Shareholders are Reshaping American Child Care," Early Learning Nation, 2024 (Part II When Chains Fail).

11 Supra note 3, p. 28, which confirms that home-based, licensed family child care providers are an important component of the child care community and proposed neighbourhood networks across BC. Family child care providers operate 9% of licensed child care spaces in BC (supra note 2, p. 96).

12 Eric Swanson, "Auspice prioritization under the Canada-Wide Early Learning and Child Care Agreements," CCCABC, 2024.

13 In a nonprofit context, it may be the case that such gains are more likely to be directed to socially-supportive ends, e.g., through the nonprofit's mission, and rules governing the disbursement of a nonprofit's assets, but there's no clear guarantee here.

10aDay.ca

On our way to universal child care

ECEBC | early childhood educators of BC

COALITION OF child care advocates OF BC

Photos by Josh Berson / Graphic design by Nadene Rehnby

Canada

Funded in part by the Government of Canada's Early Learning and Child Care-Data and Research Program and Women and Gender Equality Canada