

**If it don't make dollars, does that mean that it don't make
sense?¹
Commercial, Nonprofit and Municipal Child Care
in
the City of Toronto**

A report to the Children's Services Division, City of Toronto

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¹ From graffiti art in my back laneway, City of Toronto

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. In the latter half of 2007, there was considerable public concern and media coverage about the possibility that a multinational corporate child care chain was actively engaged in a campaign of purchasing Canadian child care centres. This company, ABC Learning - an Australian-based multinational, had established a dominant position in the Australian child care market in less than a decade of existence, dramatically changing the proportions of nonprofit and for-profit child care in that country. Concerns have been expressed in Australia and Canada about the effects of this development on:
 - a. the quality of child care provided to children,
 - b. on community orientation of and parental involvement in that child care, and
 - c. on the ability of governments to effectively regulate and develop policies to affect large and powerful corporate child care providers.

2. In this context, a number of Ontario municipalities, because of their role as child care service managers, have been anxious to ensure that they would have adequate tools to control child care developments within their boundaries. The City of Toronto has, since December 2004, had a policy that new purchase-of-service agreements with child care providers would only be established with not-for-profit operators. In October 2007, the City of Greater Sudbury passed a similar motion, restricting future purchase-of-service agreements to nonprofits (while grandfathering arrangements with existing for-profit providers). The City of Ottawa also has such a policy. The Region of Peel, in January 2008, approved a 12-month moratorium on new purchase-of-service agreements with for-profit operators.

3. This report, commissioned by the Children's Services Division:
 - (a) reviews the theoretical and empirical literature on commercial and nonprofit child care services;
 - (b) analyzes data from commercial, nonprofit and public child care services in the City of Toronto, focusing on issues of quality;
 - (c) reviews evidence from other countries on the behaviour and performance of large corporate child care chains;
 - (d) recommends appropriate policies for the City of Toronto related to commercial and non-profit child care (including large chain commercial providers).

4. In theory, and to a reasonable extent in practice, when competitive markets are working well, they compel producers to serve the consumers' interest (and social interest) by providing goods and services that are efficiently produced, of reasonable quality, and at prices that are close to costs. However, child care markets fail to perform like this, for two reasons. First is the existence of a particular public interest

in child care. Second is the inability of parents to make perfect judgements about the quality of child care on offer.

5. There is a public interest in making sure that children receive high quality child care because the principal determinant of the effects of early childhood education services on children is the quality of this care, especially the nature of the child-caregiver/ teacher interactions. There is a public interest in the amount of child care used because child care's availability can substantially affect the ability of mothers of young children to maintain labour force attachment.
6. Quality is a multi-dimensional construct that includes the richness of the environment, the availability of toys, learning materials and physical space, and more, but especially includes the supportive character of the interactions between caregivers and children. Developmental psychologists and child care experts have created instruments that attempt to measure the essence of child care quality, for instance, the Early Childhood Environments Rating Scale and the Infant-Toddler Environments Rating Scale. Child care classrooms can be rated using these scales when a trained observer spends at least half a day per classroom observing interactions, checking materials, program planning, health and safety practices, and a range of other items. Ratings on these and other items are averaged to get an overall score for the classroom. Quality as measured by these and other scales has been shown to have consistent correlations with concurrent and later measures of child development.
7. It is difficult for parents to accurately evaluate quality in a child care facility. The principal consumer is their child, and children's judgements can be fickle and unreliable. Parents spend only a small amount of time in their children's child care facilities, and the parts of quality that are most important – interactions – are both difficult to judge and are likely to be affected by the parent's presence.
8. The best empirical evidence we have about parent child care choices comes from the Cost Quality and Child Outcomes Study (CQCO) in the U.S. In empirical tests, parents are found to very substantially overestimate the actual quality level of the services their children use. Since parent evaluations do not distinguish gradations in quality between mediocre and good quality care, a "market for lemons" is likely to prevail in child care markets. In other words, since parents cannot accurately perceive gradations in quality above a certain level, and since higher quality services cost more for an operator to provide, it will not be worthwhile for most commercial providers of care to try to offer quality beyond the "mediocre" level. This market result is problematic because it is higher levels of child care quality that are consistent with positive or optimal child development. This "failure" of child care markets creates an important potential role for nonprofit and public institutions in providing quality child care.

9. Henry Hansmann, an economist, argued that nonprofits develop when "contract failure" makes market production unattractive. By this Hansmann meant that a variety of problems might make it difficult for the consumers of a particular commodity to police the conduct of producers by normal contractual or market mechanisms. Because nonprofits must retain and use their surplus earnings (if any), nonprofit firms have less incentive to take advantage of consumers than do managers of a for-profit firm.
10. Because various aspects of the quality of child care (e.g., health and safety, developmental benefits) are desired by both governments and parents, but are difficult to accurately observe and monitor, this literature would predict that nonprofit child care centers should have a demand-side advantage in providing higher quality care. This "nonprofit demand advantage" should be reflected in increased devotion of inputs to the production of higher quality and could imply a productivity advantage in producing quality services.
11. There is good evidence that nonprofit child care organizations do, on average, hire a different mix of inputs than for-profit centers and provide higher quality services. In particular, staff-child ratios, early childhood training levels of staff and wage and benefit compensation of staff are found to be higher in nonprofits in nearly every study. If there is a difference in group sizes, formal education of staff, and education level of center directors, it favors nonprofit centers, but these differences are not always significant. Similarly, on measures of process quality (global observational measures of classroom quality or measures focused on child-caregiver interaction), nonprofits always either have, on average, significantly higher quality or there is no difference.
12. Researchers in Canada and other countries generally find that nonprofit centers produce higher quality services. For example, Mitchell (2002) suggests that for-profit centres in New Zealand hire staff with lower educational levels. Mill, Bartlett and White (1997) report on a survey of centres in Montreal, Quebec that showed that for-profits had higher fees and generally lower quality. The authors argue that this is due to for-profits diverting resources to profits. Lyon and Canning (1999) report on a sampling of centres in Canada's four Atlantic provinces in which they found consistently higher quality (measured by ECERS scores) among larger nonprofits. Prentice (1997) cites general findings in Canada that nonprofits supply better quality, and are more likely to meet regulatory standards. She suggests that the policy issue concerns more than just quality, since for-profit centres serve as a lobby group for lower regulatory standards.
13. Doherty, Friendly and Forer (2002) explore the differences between nonprofit and commercial child care centres using the You Bet I Care data set. They identify two

broad explanations of observed quality differences: that nonprofit centres have greater access to government funding and donated resources, and that there are differences in goals, structures and characteristics between nonprofit and commercial centres. They only look at data from provinces and centres without government or donated resource differences and still find important quality differences by auspice. However, in a province with low average incomes and therefore uniformly low prices of child care (New Brunswick), quality rankings by auspice are very similar.

14. Cleveland and Krashinsky (2005), looking at the You Bet I Care data from Canada, find consistent differences on average between nonprofit and for-profit centres, even when controlling statistically for resource and input differences. When the data set is divided into thick and thin markets, it becomes clear that there are especially large nonprofit quality advantages in thick markets. However, the nature of competition in thin markets changes the role that nonprofit centres typically play, encouraging them to produce lower quality services. Cleveland, Forer, Hyatt, Japel and Krashinsky (2007), using four different Canadian data sets, find strong patterns of nonprofit superiority in producing quality child care services across all the data studied.
15. Not everyone is convinced that nonprofit child care organizations play a positive role. Even if nonprofit firms are more likely to deliver good quality services, the issue remains of whether nonprofit institutions act in an efficient manner - that is, whether they respond to consumer demand, minimize costs, and produce the optimal level of quality. Preston (1988) suggests that nonprofit organizations may pay higher wages to staff, without a compensating improvement in the quality of teaching services provided, and Mocan and Tekin (2003) find some support for this hypothesis. This is similar to the concerns expressed by Lefebvre (2004) about rising staff compensation levels in Quebec.
16. The City of Toronto has been a leader in supportive provision of child care services for over thirty years. It is the largest provider of child care services in Canada with the exception of the province of Quebec. The City has recognized its unique role in supporting families to provide child care – high quality child care – for families with two parents or sole support parents in the workforce and for children who can benefit from a caring environment. This role has included managing, planning and organizing the delivery of services, providing purchase of service agreements with centres to make subsidies available to eligible families, providing grants to support wages, equipment, playground and maintenance costs, providing an enhanced regulatory environment to improve the quality of services, funding child care development through capital assistance and providing compensation to school boards in lieu of rent for child care centres located in schools.

17. Analysis of data collected by the City of Toronto in 2007 from nearly all municipal centres and nearly all centres having purchase-of-service (i.e., to provide subsidized child care spaces) agreements with the City provides evidence of a nonprofit advantage in producing quality child care services. There are data on 644 child care centres having nearly 40,000 spaces. Commercial centres provide 21% of spaces; nonprofits provide 74%; municipal centres provide 7%. There are another 264 centres, with nearly 12,000 spaces, on which we do not have any data about quality, because these centres do not have purchase-of-service agreements with the City.
18. Centres with purchase-of-service agreements and directly-operated centres are evaluated annually using a set of Operating Criteria that can be interpreted as, and are intended as, measures of quality. The Operating Criteria assess a wide range of factors that are specific to the classroom in which children spend their days (infant, toddler, preschool and schoolage classrooms). In this report, we focus on two possible measures of quality. One is a global measure at the classroom or age group level (that we call “Classroom Quality”) and the other focuses on the quality of interactions between caregivers/ teachers and children (that we call “Interaction Quality”).
19. The Operating Criteria have face validity in the sense that the items that comprise our quality scores are similar to those used in constructing the Early Childhood Environments Rating Scale, the Infant-Toddler Environments Rating Scale, and other widely-used measures. However, the City of Toronto’s Operating Criteria have not been formally validated as child care quality measures. To increase our ability to compare quality results with other data sets, we have turned the Operating Criteria scores into percentages. These Operating Criteria are agegroup-specific. The data set, therefore, does not consist of observations on 644 centres, but rather consists of observations on 1427 age groupings (201 infant groupings, 308 toddler groupings, 572 preschool groupings and 346 schoolage groupings).
20. Table 3 in the body of this report shows average quality scores for commercial, nonprofit and municipal centres, for each age group (infants, toddlers, preschool, schoolage), and for each section (or subscale) of the Operating Criteria. Several patterns are obvious and notable. First, the average scores on every scale in commercial centres for infant rooms, toddler rooms, and preschool rooms are below those of nonprofit centres (5-6 percentage points lower), and the scores on every scale are virtually always higher in municipal centres (5-8 percentage points or more). Second, the gap between nonprofit classrooms and for-profit classrooms is wider for Interaction Quality than for other measures of quality. Third, the school age classrooms infrequently show significant differences between commercial and nonprofit centres. However, municipal child care for schoolage children is consistently higher in quality than either commercial or nonprofit classrooms. It is

possible that the schoolage category contains a somewhat heterogeneous mix of established and less-established programs.

21. The data analysis summarized in this report does paint a fairly consistent picture of differences between nonprofit and commercial child care in the City of Toronto. We can summarize the broad picture from this data analysis in the following points:

- (a) Average quality in nonprofit classrooms, whether measured by Classroom Quality or Interaction Quality, is consistently higher in infant, toddler and preschool rooms than in corresponding age groups in commercial centres. Interaction Quality is significantly higher in nonprofit classrooms for schoolage children, but not Classroom Quality. Care in municipal centres is better everywhere.
- (b) For infant, toddler and preschool classrooms, nearly all of the potential inputs to quality are significantly higher in nonprofits. The pattern is mixed for the inputs to quality in schoolage classrooms.
- (c) Classrooms in nonprofit centres get more of their revenue from parent fees, and less from subsidies to lower-income families; commercial centres in the City of Toronto tend to specialize in the provision of service to subsidized families. Expenditures on teaching staff are higher in nonprofit classrooms, and so are total expenditures, in general. However, for centres with schoolaged classrooms, commercial centres have higher levels of total expenditure per child per day.
- (d) Correlation coefficients indicate statistically significant relationships between the two measures of quality and a number of potential determinants of quality (i.e., inputs to quality). These include the percent of teaching hours provided by ECE-qualified staff, the hourly wages of ECE-qualified staff, the percent of children receiving subsidy, the percent of revenue coming from parent fees, and benefits as a percent of salary. Total expenditure in the centre per child per day has positive effects on Classroom Quality, but does not generally affect Interaction Quality (except for infants). Clearly, the differences in input amounts and input choices of nonprofit centres contribute to their quality advantage over commercial centres.
- (e) Regressions that statistically control for differences in the amount of financial resources available to centres, or for the teaching inputs used in classrooms, find that nonprofit status generally makes an independent contribution to quality beyond differences in financial

resources or input amounts. The size of this independent nonprofit quality advantage is typically 3-6 percentage points on Classroom Quality and 4-9 percentage points on Interaction Quality.

- (f) Comparing these results, in percentage terms, to those found in other jurisdictions, it would appear that average quality in Toronto is higher and the spread between commercial and nonprofit scores is somewhat narrower than elsewhere. The obvious conclusion is that extra monitoring and regulation of purchase-of-service centres done by the City of Toronto has some impact on centre quality. However, because the instruments used to measure quality in Toronto (items from the Operating Criteria) are different than those used in other jurisdictions, this comparison is inexact and, necessarily, tentative.

22. There are a number of worthy questions that this data can address, but that are beyond the scope of this report. These remain as potential topics for research:

- the interrelation between the multiple determinants of quality of services in child care centres in Toronto (what are the tradeoffs; what is the relative contribution of different inputs to quality?)
- the role of geography and income in affecting the production of quality services, including the role of high need areas, and areas in which there are substantial numbers of lower income families
- the puzzle of services for schoolage children, where many potential determinants of quality do not appear to play as important a role as might be expected, and where services in nonprofit classrooms are of lower quality than in classrooms for other age groups
- the determinants of quality in directly-operated municipal centres (some data on inputs are not currently available to include these centres in the analysis)
- including other aspects of the Operating Criteria in the measures of quality: for instance, outdoor playground equipment, the nutrition and provision of food to children, the administration of the various policies and procedures involved in operating the centre, the soundness of financial record-keeping and planning, and the integration of this child care service with other child and family services in the community.

23. ABC Learning Centres is the largest for-profit provider of child care in Australia and the largest corporate child care chain in the world. Since listing on the Australian stock market in 2001, ABC Learning has bought out most of its corporate rivals in that country as well as many small community and individual individual-operator services. ABC Learning is estimated to provide at least 30% of all child care spaces in Australia, including 50% or more in the State of Victoria and in the Prime Minister's home state of Queensland. In early 2008, ABC also owned substantial

numbers of child care centres and related businesses in the United States, the United Kingdom, and New Zealand, and was apparently considering entry into Canada.

24. How did this happen? Key to the expansion and profitability of ABC Learning and other private for-profit corporations in Australia was the change in government funding mechanisms from 1996-2005. In the late 1990's, the operational funding provided to long day care programs directly by the Commonwealth (i.e., federal) Government was changed to the Child Care Benefit (CCB), a fairly generous (now covering families earning up to about \$108,000 annually) means-tested subsidy paid in advance to long day care centres on behalf of parents. In addition to the CCB, the Commonwealth Government also provides a child care tax rebate (CCTR) for 30% of the remaining out-of-pocket child care expenses to families. The recently-elected Australian Labour Party has promised to increase this tax rebate from 30% to 50% of out-of-pocket child care costs.
25. These funding mechanisms, with few strings attached to guarantee quality performance or to keep prices affordable, have created very significant profit opportunities. ABC Learning has reported that fully 40% of its revenues come from government subsidies; It reported a net profit of \$37.1 million for fiscal year ended December 31, 2007. Child care fees are high by Canadian standards. Across all centres and age groups the average price of care is over \$50 per day. In major metropolitan areas, prices of \$60-\$100 per day are common, resulting in a substantial amount of part-time use.
26. Regulations in Australia are lower than is typical in Canada, and commercial lobbying efforts ensure that changes are slow. For example, staff:child ratios in most states are 1:5 for infants and toddlers; 1:10 for preschoolers; and 1:15 for over 4's. Most states and territories do not require "teacher" qualifications for long day care centre staff. The National Childcare Accreditation Council, established in 1993, administers the Child Care Quality Assurance system. Because centres must be accredited to be eligible for CCB and CCTR payments, the government believes that this mechanism "assures quality". Although the accreditation guidelines look good on paper, the NCAC has modest monitoring and enforcement capacity, and relies extensively on self-reporting. Invoking commercial confidentiality, the NCAC does not make quality scores of individual centres public (so parents cannot base decisions on evidence about quality), and commercial centres have refused access to centres for academics to do objective studies of quality. .
27. The growth of commercial and corporate child care in Australia has led in less than a decade to dramatic changes in the character of child care services. A commercial logic rather than a public-service logic now dominates. This is reflected in commercial confidentiality concerns about quality information, extensive lobbying against regulatory improvements, the proprietary character of curriculum plans, and

the legal effort devoted to defending brand names. ABC Learning Centres has been particularly aggressive in defending its commercial assets and “good name”. It has been very active in suing people who comment negatively about ABC; in fighting court cases assigning it corporate responsibility for problems in its centres, and in preventing other centres from setting up in close proximity to its own.

28. NAFTA accords foreign investors certain rights as soon as investments are established in Canadian child care service businesses. Most notable is the right to claim damages where it is alleged that government measures effectively expropriate their investments. Because expropriation is broadly defined, a plan by government to establish a publicly funded child care system, where funding is restricted to not-for-profit providers, might be considered to breach the NAFTA prohibition against expropriation. The risk of such claims is proportional to the size of the commercial stake foreign investors have in the sector.

29. A recent legal opinion argues that, governments can allocate public funding in child care services to not-for-profit providers even though the effect is to discriminate against foreign investors because in the NAFTA, Canada established an exemption for certain measures relating to social services:

The character of this ‘social services’ reservation is such that Canadian governments are entitled, not only to maintain existing social service programs and regulations, but to establish new ones. This is true even where such initiatives explicitly restrict the rights of foreign investors or service providers, such as by prohibiting foreign investment in the child care sector.

Even so, it is possible that such discriminatory treatment could found a claim for expropriation where the public funding regime was such as to significantly reduce a for-profit provider’s market share. But again, this problem can only arise if foreign investors are permitted to establish a significant commercial presence in the child care sector.

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For example, if a program of full-day learning for four- and five-year-olds attending junior and senior kindergarten is implemented, this may engage the application of trade rules. The risk of such a claim is proportional to the extent of foreign investment in the sector.

30. In other words, Canadian governments currently have the authority to both prohibit foreign investment in and to exclusively fund nonprofit providers without running afoul of international trade rules. However, if governments fail to use this authority to prevent the establishment of a significant foreign (commercial) investor presence in the sector, they will invite the application of trade rules that limit their future policy and program options. Should this occur, NAFTA investment rules will make it very difficult for governments to reverse course to favour not-for-profit and

community based child care, and will also render certain forms of child care regulation vulnerable to challenge before NAFTA tribunals.

31. How do governments interested in the expansion of the nonprofit sector provide appropriate support?

There are at least two major barriers to the expansion of nonprofit programs:

- Initial and ongoing access to capital
- Management and operations support

32. The for-profit sector has the advantage of being able to negotiate loans and mortgages from commercial banks. Most financial institutions are unwilling to lend money on equal terms to nonprofit operators. The City of Toronto has provided capital assistance to some nonprofit centres on a one-off basis. Over the last 10 years, the City has provided capital funding to about 20 new nonprofit child care centres, sometimes in the form of direct assistance, sometimes as loan guarantees or interest-free loans. The City should continue and expand these efforts, and the City should work with the Province to develop a province-wide program of provision of loan capital to nonprofit centres. Any such program should be administered through municipalities (i.e., the Service System Managers) to ensure that capital is allocated to services created in areas where additional quality services are needed.

33. Child care in Canada has been aptly described by the OECD as a “patchwork service”. Existing programs largely reflect the commitment of community leadership. Sometimes they result from entrepreneurial efforts. In Toronto, the City government has played an important role in the child care planning and development process. In spite of the City’s best efforts, community-based child care is often fragile. It is difficult to establish nonprofit early learning and child care programs in new communities, new suburban housing developments or in vulnerable neighbourhoods.

34. The City of Toronto has already played a leading role in development of new child care centres. In particular, the City helped to develop 55 new child care centres in the first round of Best Start funding. This development role should be continued, should be expanded with provincial support, and should be complemented by ongoing operating and management support. The planning and development role is well done by the City. Ongoing operating and management support could reside in the hands of an arms-length agency designed to support community-based, nonprofit child care programs.

35. Such an agency would fill the gaps in the existing child care networks by providing support in the development of boards of directors and the establishment of sound business practices (legal, financial, human resources); promoting physical environments that support quality, accessibility and cost-effectiveness appropriate

to the community's needs; promoting service planning and effective partnerships to ensure new programs respond to community need and make use of, and are supported by, the capacity within their neighbourhoods; assisting new boards to meet their legal obligations and establish effective business practices; developing quality benchmarks in child care design and service organization and promoting best practice in program content; contributing to the development of child care programs based on best practices.

Recommendations

1. *The City of Toronto should continue its policy, adopted in 2004, of encouraging the growth of nonprofit child care, by restricting new or expanded purchase-of-service agreements to take place in not-for-profit facilities.*
2. *The City of Toronto should continue annually collecting Operating Criteria data (and budget and financial data) from centres with which it has purchase-of-service agreements and municipal centres. These data are key to the City's objective of monitoring a wide range of quality-related performance data in child care. There is evidence that this monitoring function is effective in raising the overall level of quality in Toronto centres, relative to those in other jurisdictions.*
3. *Since there is a public interest in ensuring quality services in centres that do not have purchase-of-service agreements in Toronto, the City should consider means of extending the obligation to report on measures of quality to currently uncovered centres. Initially, this reporting requirement could extend to all service providers that receive rent subsidies, wage subsidies or other public funding. The City could encourage the province to share the costs of this extension and to collect similar data from centres across the province as a means of carrying out their regulatory, licensing and monitoring functions.*
4. *The Operating Criteria apparently serve their monitoring function reasonably well. However, their status as accurate measures of child-development-related quality has not been validated. The City should have these Criteria validated, adapting them as necessary for this purpose (e.g., the "pass mark" may change, or they may be measured on a 5-point instead of a 4-point scale). This has become more important with the decision to publish Operating Criteria on the web site and have them posted in centres. The City could use this occasion to confirm that parents also care about the same measures of quality when considering items that promote child development.*
5. *The City of Toronto should encourage the Province of Ontario to follow municipal leadership in evolving the current hodge-podge child care system in the province into a more coherent and integrated system of nonprofit and public providers. Amongst other policy changes, this would require the province to declare, as Toronto has, that future developments will occur in the nonprofit and public sectors, and that the for-profit child care sector in the province will be grandparented into a gradually declining role. The*

objectives of this policy would be to enhance child care quality, and, in the context of NAFTA, to preserve the ability of the province to establish full-day junior and senior kindergarten, or other innovative early childhood education policies. In other words, the child care system would serve public purposes, as the schools, hospitals and universities do now, through a network of nonprofit or public organizations. The funding would come, as with schools, hospitals and universities, from taxpayers and consumers.

6. *In the next few years, as this policy becomes established, the Province of Ontario should, and the City of Toronto should encourage the Province to, pay special attention to monitoring and controlling the issue of new child care licenses and the transfers of existing licences, so that large for-profit child care chains are not able to get established in this province, and so its policy flexibility under NAFTA is maintained.*
7. *The City of Toronto should encourage the Province of Ontario to favour conditional supply-side funding over unconditional demand-side funding in its efforts to develop the child care system in Ontario. Supply-side funding (directly to programs) confers greater ability to compel regular reporting, monitor performance and encourage the provision of higher quality programs.*
8. *Because of the difficulties nonprofit programs have in gaining access to capital for expansion and new development, the City of Toronto should regularize the capital and development assistance to new nonprofit centres that they currently provide on an irregular basis. Further, the City should encourage the Province of Ontario to mandate (and financially support) Service System Managers to develop capital assistance programs to encourage the development of nonprofit child care services across the province. Nonprofit centres need assistance with access to capital on favourable terms; assistance with forecasting and planning activities necessary at the early stages of setting up child care. These type of supportive programs for nonprofit agencies are particularly important when governments are under pressure to increase child care supply rapidly. It is precisely at these times that for-profit child care can develop rapidly, making use of generous public funding, while nonprofits are slower off the mark*
9. *Further, the Province of Ontario should mandate (and financially support) Service System Managers to make provision for ongoing management and operating advice and assistance, especially to independent nonprofit centres. This recommendation responds to the weaknesses that independent nonprofit operators have in setting up, managing, and operating efficient, high quality, parent- and child-friendly services; assistance with human resource, benefit and compensation planning and negotiation; assistance with developing and mounting professional development programs; assistance with joint purchasing, program and curriculum planning, record-keeping and other activities that lower costs of operation and improve efficient management of high quality nonprofit child care services. It may be efficient to have this ongoing management and operating assistance provided through a sector-based arm's length agency.*

10. *Classrooms in municipal centres are virtually always of higher quality than in other centres. More analysis of the determinants and costs of higher quality care in municipal centres is warranted. In the meantime, the City of Toronto should remain strongly committed to maintaining these centres and preserving their important role of providing high quality education and care services, particularly for subsidized children.*

Introduction

1. In the latter half of 2007, there was considerable public concern and media coverage about the possibility that a multinational corporate child care chain was actively engaged in a campaign of purchasing Canadian child care centres. This company, ABC Learning - an Australian-based multinational, had established a dominant position in the Australian child care market in less than a decade of existence, dramatically changing the proportions of nonprofit and for-profit child care in that country. Concerns have been expressed in Australia and Canada about the effects of this development on:
 - a. the quality of child care provided to children,
 - b. on community orientation of and parental involvement in that child care, and
 - c. on the ability of governments to effectively regulate and develop policies to affect large and powerful corporate child care providers.

2. In this context, a number of Ontario municipalities, because of their role as child care service managers, have been anxious to ensure that they would have adequate tools to control child care developments within their boundaries. The City of Toronto has, since December 2004, had a policy that new purchase-of-service agreements with child care providers would only be established with not-for-profit operators². In October 2007, the City of Greater Sudbury passed a similar motion, restricting future purchase-of-service agreements to nonprofits (while grandfathering arrangements with existing for-profit providers). The City of Ottawa also has such a policy. The Region of Peel, in January 2008, approved a 12-month moratorium on new purchase-of-service agreements with for-profit operators.

3. At the beginning of December 2007, the Children's Services Advisory Committee of the City of Toronto asked the Children's Services Division to report on the issues raised by these concerns and to make possible recommendations for action. As part of its response, the Children's Services Division approached me to write a paper that would do several things, including:
 - (a) review the theoretical and empirical literature on commercial child care services and other evidence of the experience with commercial child care in different jurisdictions, focusing especially on the quality of those services, the use of inputs which generally predict quality, and the use of financial resources;
 - (b) using data collected by the City of Toronto, analyze the relationships between nonprofit, commercial or municipal auspice of the child care centre and quality (as measured by the Operating Criteria), staff wages, benefits, and other factors, including budget and financial data.

² The City had already removed the "profit" line from purchase-of-service budgets in the early 1990's.

- (c) contrast, where possible, City of Toronto results with results from other jurisdictions through review of relevant literature on child care and auspice as well as a review of the City's own data;
- (d) review evidence on the behaviour and performance of multinational chains and comment on the opportunity for such programs to establish themselves in Ontario and the City of Toronto;
- (e) include the Consultant's observations about appropriate policies for the City of Toronto related to commercial and non-profit child care (including large chain commercial providers); and
- (f) include the Consultant's recommendations concerning policy and practices for consideration of the City's Children's Services Advisory Committee.

TERMINOLOGY

4. The word "auspice" is frequently used in Canada to refer to the ownership and management situation of child care facilities. Amongst child care centres, there are three broad types of ownership and management structure (or auspice): public, nonprofit and for-profit. Ontario is the only province with public preschool child care facilities³ – many municipalities directly operate child care centres, typically with an orientation to providing very good quality care for families, many of whom have low incomes. In the data set analyzed in this report, there are 54 municipal child care centres.
5. About 80% of the child care centres in Canada are nonprofit (sometimes called not-for-profit). Nonprofits are heterogeneous. Many nonprofits have a community base of some kind – e.g., started by a church, community centre, YMCA, by a college as part of its teaching program, etc. Most nonprofits are not administered as part of a large multiple-unit operation, but are either stand alone or nearly so.
6. Commercial child care operations are also heterogeneous. Nearly all centres are incorporated, to reduce personal liability for loss or damages. However, while many are stand alone centres with a single owner, others across Canada are part of a small or large chain of child care centres.
7. None of the current child care centres in Toronto are owned by corporations listed on the stock exchange, with dispersed ownership. The largest chain operating in Toronto has only 9 purchase-of-service centres. As a result, while the analysis of current child care data from the City of Toronto can shine a light

³ Of course, public kindergartens provide education and care services that are somewhat similar to that provided in good quality child care centres, but we do not consider kindergartens in this report.

on differences between commercial, nonprofit and public (municipal) child care, it cannot provide direct information about the operations of companies like ABC Learning Centres Ltd. (publicly-traded child care corporations)

Review of Relevant Literature and Studies on Commercial and Nonprofit Care

8. There is a considerable theoretical literature, especially in economics, on the role of nonprofit organizations in market economies, and a growing empirical literature analyzing the differential performance of nonprofit and commercial child care operators in market economies. However, there is only a small amount of, mostly quite recent, academic and policy literature on what is often misleadingly called “corporate child care” (by which is really meant the role of large corporate child care chains, often publicly-traded on share markets, and sometimes multinational).
9. Our economy, like most others around the world, is a capitalist market economy. Most goods and services are produced by private corporate firms or unincorporated privately-owned firms. Some of these corporations are publicly traded on stock exchanges, so that their ownership is potentially widespread, and separate from management of the company. The objective of most firms is to make profit for the shareholders or owners, but in order to do that, they must successfully produce and sell a good or service that consumers will voluntarily buy. Because, in most markets, firms are in competition with other firms, each one is pressured to make its product more attractive (lower price, better design) to buyers. When competitive markets are working well, they compel producers to serve the public interest by providing goods and services that are efficiently produced, of reasonable quality, and at prices that are close to costs.
10. Economists have studied carefully the conditions under which this parable about competitive markets becomes reality. In markets where these particular conditions are absent, or weak, there is “market failure”, and, potentially, government action or institutional innovation may help to remedy these sources of market failure.
11. So, for instance, when there are very substantial “economies of scale” in an industry, a single producer may be able to gain a cost advantage over all competitors, leading to a situation known as “natural monopoly”. In these circumstances, competition is not effective in disciplining the producer to serve the public interest. Either public ownership or regulation of the natural monopoly industry may be appropriate, or institutional changes to promote competition.

12. Child care markets may not be characterized by substantial economies of scale, but there are problems that can make these markets fail. Fundamentally, there are two reasons. First is the existence of a public interest in child care (sometimes described as “external benefits” of child care – benefits in addition to those received by the direct purchaser). Second is the inability of parents to make perfect judgements about the quality of child care on offer, sometimes known as the problem of information asymmetry, because consumers have less information about actual quality of services than do producers.

THE PUBLIC INTEREST IN CHILD CARE

13. There is a substantial public (i.e., collective or social) interest in the effects of child care on children and families. For most other goods and services sold in the market, the public interest is well served if consumers get the quality and amount of the good they can afford (no matter what that quality and amount are), as long as there is competition amongst suppliers. However, for early childhood education and care (of which child care is a part), both the quality of the service and the amount traded are of public interest in and of themselves. There is a public interest in high quality because the principal determinant of the effects of early childhood education services on children is the quality of this care, especially the nature of the child-caregiver/teacher interactions. There is a public interest in the amount of child care used because child care’s availability can substantially affect the ability of mothers of young children to maintain labour force attachment. So, the results, not just the process, are of public interest in this market.

THE DIFFICULTY OF ASSESSING QUALITY

14. Quality is a multi-dimensional construct that includes the richness of the environment, the availability of toys, learning materials and physical space, and more, but especially includes the supportive character of the interactions between caregivers and children. It is difficult for parents to accurately evaluate quality in a child care facility. The principal consumer is their child, and children’s judgements can be fickle and unreliable. Parents spend only a small amount of time in their children’s child care facilities, and the parts of quality that are most important – interactions – are both difficult to judge and are likely to be affected by the parent’s presence. Economist James Walker (1991) has written that “The lack of perfect information is the most striking difference between the child care market and the idealized perfect market...Consumers do not know the quality of care offered by providers once identified. Even after a long period of use, consumers will not be fully informed about the behaviour of the provider.” (p. 65).
15. Developmental psychologists and child care experts have created instruments that attempt to measure the essence of child care quality, for instance, the Early

Childhood Environments Rating Scale and the Infant-Toddler Environments Rating Scale. Child care classrooms can be rated using these scales when a trained observer spends at least half a day per classroom observing interactions, checking materials, program planning, health and safety practices, and a range of other items. Ratings on these and other items are averaged to get an overall score for the classroom. Quality as measured by these and other scales has been shown to have consistent correlations with concurrent and later measures of child development.

16. The best empirical evidence we have about parent child care choices comes from the Cost Quality and Child Outcomes Study (CQCO) in the U.S. (Helburn, 1995; but see also Browne Miller, 1990; Cryer, 1989; Fleming, 1989; and Shinn, Phillips, Howes, Galinsky and Whitebook, 1990). The CQCO study used ECERS and ITERS scales to measure actual observed quality in preschool and infant-toddler classrooms in 400 centres in 4 U.S. states. In addition, they asked parents of children in those classrooms to complete a parent-friendly observation questionnaire about exactly the same items included in the ECERS and ITERS scales.
17. Naturally, parents are anxious to assess these quality-related items in their decisions to patronize one centre rather than another. However, in empirical tests, parents are found to very substantially overestimate the actual quality level of the services their children use. Debby Cryer and Margaret Burchinal (1997) compare the parent evaluations in CQCO to the professional evaluation of child care quality in those classrooms. Typically, the professional scores, item by item, averaged about 3 or 4 (mediocre quality). The parent scores on the same items are mostly 6's and some high 5's (good to very good quality). Cryer and Burchinal found little ability of parents to identify lower quality practices in child care centres.
18. Naci Mocan (2001), an economist at University of Colorado, analyzed the data from this study using different techniques. He concluded that generally when an item reached 4.1 on the ECERS or ITERS scale (mediocre quality), parents would, on average, rate it as a 7 on the same scale (excellent quality; top of the scale). Naturally, when an item was a 4.2 or 4.3 or 5.4, it also received a rating of "7" from parents. Mocan concluded that parent evaluations did not distinguish gradations in quality between mediocre and good quality care. Under these circumstances, a "market for lemons" is likely to prevail in child care markets. In other words, since parents cannot accurately perceive gradations in quality above a certain level, and since higher quality services cost more for an operator to provide, it will not be worthwhile for most commercial providers of care to try to offer quality beyond the "mediocre" level. This market result is problematic

because it is child care quality at 5 and above on the ITERS and ECERS scales that is said to be consistent with positive or optimal child development.

19. If parents are unable to accurately assess the quality of early childhood services, they are unable to play the gatekeeper role assigned to them by economic theory. They are unable to discipline producers of lower quality care by punishing them in the market, and reward producers of better quality care. Since child care is a very expensive item for most parental budgets, parents are more likely to be attracted by low prices (which they can easily perceive) than by high quality (which they cannot readily judge). As a result, producers of lower quality care are likely to flourish, whereas providers of higher quality (more expensive) care will not be able to survive.
20. So, markets fail for two reasons. First, because there is a public interest in children, in ensuring they are cared for in optimal environments when young, in ensuring that children from different backgrounds get a more equal start in life. This public interest means that parents will not, without substantial government financial assistance, purchase the type and quality of care that is socially optimal. Second, since parents find it difficult to accurately distinguish between lower and higher quality early childhood services, free markets will tend to ensure an “adverse selection” of lower quality child care.
21. Henry Hansmann, an economist, provided the essential theoretical understanding of the role of nonprofit enterprises in this kind of market in 1980. He argued that nonprofits develop when "contract failure" makes market production unattractive. By this Hansmann meant that a variety of problems might make it difficult for the consumers of a particular commodity to police the conduct of producers by normal contractual or market mechanisms. Because nonprofits must retain and use their surplus earnings (if any) rather than disburse them to shareholders, nonprofit firms have less incentive to take advantage of consumers than do managers of a for-profit firm.
22. Ben-Ner identifies “informational asymmetries” as vital to explaining the role of nonprofit organizations. For instance, the owners of a child care centre will know how skilled or unskilled the staff is, how many resources are being devoted to professional development, to programming, to keeping child/staff ratios low. However, the parent of a child in the centre will not know this same information. In other words, the owner will know the quality of the service he is selling, but the parent will only know the quality imperfectly. Consumers, therefore, have incentives to establish or support nonprofit organizations who may have less incentive to use the information asymmetry to their advantage.

23. These consumers could be family members who have difficulty evaluating the quality of what they are consuming and communicating that evaluation to the purchaser (day care, nursing homes). They could be donors providing goods and services to needy recipients in ways that are difficult to monitor (charities, foreign aid agencies). They could be consumers of public goods whose demand is not met effectively by governments (education, social services). Or, they could be governments, subject to similar information problems in the purchase of health or social services from private firms (Salamon, 1987; Krashinsky, 1990).
24. The emphasis in this discussion of the nonprofit advantage is on the demand side (i.e., consumer trust). This necessarily implies some difference in supply behaviour by nonprofit organizations – they must earn this trust by supplying greater quality. This could happen in two different ways: (a) nonprofits might share precisely the same production technology as for-profits, but simply be willing to hire the extra resources necessary to produce higher quality; (b) Alternatively (or in addition), nonprofits might have productivity advantages over for-profit firms (e.g., more highly motivated staff and management, a coherent team approach to production of quality).
25. Young (1981) identifies a range of possible motivations for managers - to make money, to be creative, to provide service, to achieve autonomy, and so on - and suggests that entrepreneurs will sort themselves into different fields and sectors of business accordingly (so that those primarily interested in money will not choose the nonprofit sector). In contrast, James (1987) suggests that religious groups will often start nonprofit organizations in order to reach out to those who come to the organization. James and Rose-Ackerman (1986) suggest that some nonprofits are started in order to engage in cross-subsidization (so that, for example, universities make money on undergraduate education to subsidize research and graduate education).
26. Peter Moss (2008) from the Institute of Education, University of London, has recently written about nonprofit and for-profit child care from quite a different perspective, in a discussion paper for the Bertelsmann Foundation. He contrasts the different rationalities, values, implications for the structuring of service systems and roles of different levels of government that are implied by the market model of child care and the model of “democratic experimentalism”. His discussion is not a narrow one, focusing on “what works?”, but instead directs its attention to ethical and political questions such as “what do we want for our children and our societies?”
27. Because various aspects of the quality of child care (e.g., health and safety, developmental benefits) are desired by both governments and parents, but are difficult to accurately observe and monitor, most of the literature we have

discussed above would predict that nonprofit child care centers should have a demand-side advantage in providing higher quality care. This “nonprofit demand advantage” should be reflected in increased devotion of inputs to the production of higher quality and could imply a productivity advantage in producing quality services.

EMPIRICAL EVIDENCE ABOUT CHILD CARE AUSPICE

28. There is good evidence that nonprofit child care organizations do, on average, hire a different mix of inputs than for-profit centers and provide higher quality services. In particular, staff-child ratios, early childhood training levels of staff and wage and benefit compensation of staff are found to be higher in nonprofits in nearly every study. If there is a difference in group sizes, formal education of staff, and education level of center directors, it favors nonprofit centers, but these differences are not always significant. Similarly, on measures of process quality (global observational measures of classroom quality or measures focused on child-caregiver interaction), nonprofits always either have, on average, significantly higher quality or there is no difference. The exception to these statements comes when auspice is broken into sub-types; nonprofit church-affiliated centers in the U.S. have been found to score particularly low on measures of quality. Since these input differences may be accompanied by differential access to government funding and private donations, and because there are not always significant differences in process quality, there remains analytical disagreement about the role of auspice in enhancing child care quality.
29. Kagan and Newton (1989) find, in a small direct-observation sample of 57 day care centers, that although there are relatively few quality differences between unsubsidized for-profit and nonprofit centers in Connecticut, subsidized nonprofit centers in the state produce higher levels of quality. Later, Kagan (1991) summarizing results from four studies of nonprofit vs. for-profit child care (including Kagan and Newton, 1989) concludes that “incentives that support expansion of the private nonprofit sector should be fostered. Private nonprofits avoid the liabilities of other sectors: their costs are lower than government centers and their average quality is higher than for-profit centers.”
30. Preston (1993) found more social externalities (i.e., production of more external benefits such as service to black and minority children and lower fees to some families) in nonprofit centers that were not federally regulated than in for-profit centers. In federally regulated centers, nonprofit centers produced higher quality, which Preston attributed to higher taste for quality among nonprofit entrepreneurs.
31. Whitebook, Howes and Phillips (1989) collected observational data on measures of quality from 227 centers in five metropolitan areas across the U.S. in the

National Child Care Staffing Study. To control for differences in resources available to centers to produce quality, those receiving government funds were separated from other centers. Nonprofits, whether or not they received government funds and for both infant-toddler and preschool classrooms, scored significantly higher than similar for-profits on two different measures of process quality.

32. Data from the Cost, Quality and Child Outcomes Study (CQCO) has been analyzed in five separate studies. The key relevant finding in the original technical report (Helburn et al., 1995) was that the observed superiority in process quality of nonprofit centre classrooms was entirely explained by differences in North Carolina, a state with lax quality-related regulations. Otherwise, even with no controls for resource or other differences, nonprofits were not superior to for-profits. Mocan (1997), Morris and Helburn (2000) and Blau and Mocan (2002) cite this same evidence. Analyzing cost and supply behaviour of day care centers, Mocan (1997) and Blau and Mocan (2002) find that, controlling for quality, there are no significant cost differences per unit of output between centers from these different auspices, despite higher compensation to staff in nonprofit centers (i.e., there is no evidence of cost inefficiency in nonprofit centers).
33. Morris and Helburn (2000) seek to explain the unexpected finding of no difference in quality in the CQCO data, hypothesizing that for-profits achieve equal quality by emphasizing easy-to-observe (and cheaper) rather than hard-to-observe (and more important to child development) aspects of overall quality measures. They find no empirical support for this hypothesis, except in North Carolina. Morris and Helburn hypothesize that there may be differences in management objectives or practices for different subsectors of both nonprofit and for-profit sectors, leading to provision of different levels of quality by subsector. They find that public centers, independent nonprofits and church-affiliated nonprofits provide higher quality, with church-operated and community centre nonprofits, along with all types of for-profit centers providing lower quality services.
34. Blau (2000) uses the CQCO to estimate production functions for child care quality. Holding constant various measures of teacher education, staff-child ratio, parent and other characteristics, along with a large number of center characteristics, for-profits are found to produce significantly worse quality than independent nonprofit centres (i.e., those nonprofits without substantial public funding or federal regulation). This result is found in models without fixed effects, and with zip code fixed effects.

35. Researchers in Canada and other countries generally find that nonprofit centers produce higher quality services (SPR Associates, 1986; Mitchell, 2002; Mill, Bartlett and White, 1997; Lyon and Canning, 1999; Prentice, 1997; Doherty, Friendly and Forer, 2002; Cleveland and Krashinsky, 2005; Cleveland et al., 2007). For example, Mitchell (2002) suggests that for-profit centres in New Zealand hire staff with lower educational levels. Mill, Bartlett and White (1997) report on a survey of centres in Montreal, Quebec that showed that for-profits had higher fees and generally lower quality. The authors argue that this is due to for-profits diverting resources to profits. Lyon and Canning (1999) report on a sampling of centres in Canada's four Atlantic provinces in which they found consistently higher quality (measured by ECERS scores) among larger nonprofits. Prentice (1997) cites general findings in Canada that nonprofits supply better quality, and are more likely to meet regulatory standards. She suggests that the policy issue concerns more than just quality, since for-profit centres serve as a lobby group for lower regulatory standards.
36. Doherty, Friendly and Forer (2002) explore the differences between nonprofit and commercial child care centres using the You Bet I Care data set. They identify two broad explanations of observed quality differences: that nonprofit centres have greater access to government funding and donated resources, and that there are differences in goals, structures and characteristics between nonprofit and commercial centres. They only look at data from provinces and centres without government or donated resource differences and still find important quality differences by auspice. However, in a province with low average incomes and therefore uniformly low prices of child care (New Brunswick), quality rankings by auspice are very similar.
37. Cleveland and Krashinsky (2005) find consistent differences on average between nonprofit and for-profit centres, even when controlling statistically for resource and input differences. When the data set is divided into thick and thin markets, it becomes clear that there are especially large nonprofit quality advantages in thick markets. However, the nature of competition in thin markets changes the role that nonprofit centres typically play, encouraging them to produce lower quality services. Cleveland, Forer, Hyatt, Japel and Krashinsky (2007), using four different Canadian data sets, find strong patterns of nonprofit superiority in producing quality child care services across all the data studied.

CONTESTING VIEWS

38. Not everyone is convinced that nonprofit child care organizations play a positive role. Even if nonprofit firms are more likely to deliver good quality services, the issue remains of whether nonprofit institutions act in an efficient manner - that is, whether they respond to consumer demand, minimize costs,

and produce the optimal level of quality. Preston (1988) suggests that nonprofit organizations may pay higher wages to staff, without a compensating improvement in the quality of teaching services provided, and Mocan and Tekin (2003) find some support for this hypothesis. This is similar to the concerns expressed by Lefebvre (2004) about rising staff compensation levels in Quebec (see also, Association of Day Care Operators of Ontario, 2006).

39. Economic theory suggests that the absence of any clear ownership claim of the residual earnings (that is, the profits) of a for-profit firm will eliminate the incentive to produce efficiently (see Alchian and Demsetz, 1972). James and Rose-Ackerman (1986, 37-8) suggest that the absence of incentives may lead in the nonprofit world to "more bureaucratized control mechanisms, more shirking, and higher cost curves." Steinberg (1986) surveys the literature attempting to measure inefficiencies, but critiques the property rights approach by noting that the for-profit sector is itself not likely to act efficiently in the face of consumer uncertainty.

Analysis Of Data From The City Of Toronto, 2007

40. The City of Toronto has been a leader in supportive provision of child care services for over thirty years. It is the largest provider of child care services in Canada with the exception of the province of Quebec. The City has recognized its unique role in supporting families to provide child care – high quality child care – for families with two parents or sole support parents in the workforce and for children who can benefit from a caring environment. This role has included managing, planning and organizing the delivery of services, providing purchase-of-service agreements with centres to make subsidies available to eligible families, providing grants to support wages, equipment, playground and maintenance costs, providing an enhanced regulatory environment to improve the quality of services, funding child care development through capital assistance and providing compensation to school boards in lieu of rent for child care centres located in schools.

DESCRIPTION OF THE SAMPLE

41. There are 644 centres (39,697 spaces) in the data set. 112 of these are commercial centres (8,316 spaces), 478 are nonprofits (28,477 spaces) and 54 are municipal centres (2,904 spaces). In other words, 17% of the centres in the data set are commercial (21% of spaces), 74% are nonprofit (72% of spaces), and 8% are municipal (7% of spaces). All centres in the data set either have purchase-of-service agreements with the City, or are directly-operated municipal centres.
42. The 644 centres are a nearly complete sample of all centres with purchase-of-service agreements with the City. There are 652 centres in Toronto that have purchase-of-service agreements or are municipal centres, but the data is

unavailable for 8 centres. On the other hand, the 644 centres are a select sample from the total of 916 licensed child care centres (51,811 spaces) in the City of Toronto (December 2007). There are 264 centres (with 11,751 spaces) that do not have purchase-of-service agreements with the City of Toronto. This group, from whom we do not have data, comprises 29% of all centres in the City or 23% of all spaces.

CITY OF TORONTO'S OPERATING CRITERIA

43. Centres with purchase-of-service agreements are subject to additional reporting requirements to and monitoring by the City of Toronto (but may be eligible for additional grants, as well). In particular, centres with purchase-of-service agreements and directly-operated centres are evaluated annually using a set of Operating Criteria that can be interpreted as, and are intended as, measures of quality⁴. In order to continue enjoying the privilege of having a purchase-of-service agreement with the City, centres must score adequately (usually at least 3 out of 4) on a range of specific items on which they are scored. Most of the scoring occurs at the time of a visit from a Children's Services Consultant, which is an unannounced annual visit.
44. The Operating Criteria assess a wide range of factors that are specific to the classroom in which children spend their days (infant, toddler, preschool and schoolage classrooms). They also assess the outdoor playground equipment, the nutrition and provision of food to children, the administration of the various policies and procedures involved in operating the centre, the soundness of financial record-keeping and planning, and the integration of this child care service with other child and family services in the community.
45. It is possible, using these Operating Criteria, to define a number of different measures of the quality of services that child care centres provide. In particular, it is possible to define either agegroup-specific or centre-specific measures. In this report, we focus on the assessments of individual classrooms that are agegroup-specific. These Operating Criteria measures have 8 sections (7 for infants); each of these sections is typically composed of several items. These are: Interactions, Learning, Physical Environment, Health and Safety, Program Planning (Activities and Experiences Planned), Structure of the Day, and Toys and Materials. Each is measured on a scale of 1 to 4. In order to pass on a particular item, the centre needs to get a score of at least 3 (i.e., 3 is the "pass

⁴ It is the classroom-specific portion of the Operating Criteria that is most obviously relevant as a set of measures of quality. Assessment of the administration of the centre and its financial record-keeping practices may provide early indicators of practices that may later result in poor classroom quality, but they are not direct measures of the quality of care received by children.

mark”)⁵. The large majority of both commercial and nonprofit classrooms scored at or above the pass mark; all municipal classrooms scored above the pass mark.

46. In this report, we will focus on two possible measures of quality. One is a global measure at the classroom or age group level (that we call “Classroom Quality”) and the other focuses on the quality of interactions between caregivers/teachers and children (that we call “Interaction Quality”). Classroom Quality is measured by taking the average value on all of the agegroup-specific items that are measured by the Operating Criteria (these range in number from 36 items for infants to 33 items for schoolage children). Interaction Quality averages the scores on the 7 items that are part of the Interaction Section, or Interaction subscale, for each age group (for infants, these items are Positive Atmosphere, Supervision of Children, Fostering Children’s Independence, Supporting the Development of Self-Esteem, Behaviour Guidance, Supporting the Development of Communication Skills, and Extending Children’s Learning). Research on children’s development points to the nature of interactions as the most critical aspect of child care quality for promoting children’s development. Another reason for analyzing Interaction Quality, as well as Classroom Quality, is that interactions are less visible than many of the other aspects of quality in the Operating Criteria. Theories of the roles played by for-profit and nonprofit centres in child care markets suggest that there may be larger differences in measured quality on items that are the least easily observable by parents.
47. There are alternative possible quality measures. In addition to the agegroup-specific measures that are our focus, the Operating Criteria, as mentioned above, include scales that evaluate outdoor playground equipment, the nutrition and provision of food to children, the administration of the various policies and procedures involved in operating the centre, the soundness of financial record-keeping and planning, and the integration of this child care service with other child and family services in the community. Any or all of these could be averaged in with the agegroup-specific measures to form a more comprehensive, global, quality measure for the centre’s services.
48. The Operating Criteria have face validity in the sense that the items that comprise our quality scores are similar to those used in constructing the Early Childhood Environments Rating Scale, the Infant-Toddler Environments Rating Scale, and other widely-used measures. However, the current version of the City of Toronto’s Operating Criteria has not been formally validated as a set of child

⁵ 60 classrooms did not score at the “passing” level on the Operating Criteria (20 commercial, 40 nonprofit and 0 municipal); this is about 4% of nonprofit classrooms and 7% of commercial ones. The bulk of these are serving either preschool or schoolage age groups.

care quality measures. Readers of this report should take this into account in assessing this report's conclusions.

49. To increase our ability to compare quality results with other data sets, we have turned the Operating Criteria scores into percentages. Since “1” is the lowest possible score, this is equivalent to zero on a percentage scale. “4” is equivalent to 100%, so “2” becomes 33.3% and “3” becomes 66.6%, and so on. To turn any of the quality scores in this report back into “Operating Criteria” numbers, simply divide by 100, multiply by 3, then add 1. So, for instance, the average percent score across all 1427 age groupings in this data set is 84.7. Turned back into a raw Operating Criteria score, this would be $[(84.7/100) \times 3] + 1 = 3.5$. Similarly, if we take the average age grouping scores for commercial, nonprofit and municipal centres in this data set, they are 80.3, 84.9 and 92.7. Turned back into Operating Criteria average scores, these would be 3.4, 3.6 and 3.8.
50. These Operating Criteria are agegroup-specific, so that infant rooms, toddler rooms, preschool rooms and rooms for schoolage children are scored according to somewhat different sets of criteria⁶. As a result, the quality measures (i.e., Operating Criteria scores) in this data set refer to age groups rather than to centres. The data set, therefore, does not consist of observations on 644 centres, but rather consists of observations on 1427 age groupings (201 infant groupings, 308 toddler groupings, 572 preschool groupings and 346 schoolage groupings). Although sometimes centres have more than one classroom for each age group, we will, for convenience in exposition, also sometimes refer to the age group level as classrooms – e.g., we will refer to the average quality score in preschool classrooms). We analyze the data separately by each age level. Some of the data, however, (e.g., budget and revenue data) is available only at the centre level, and, in tables below, refers to the centre-level information.

NUMBER OF AGE GROUPS WITHIN CENTRES

51. Every centre could potentially simultaneously serve up to four age groups – infants, toddlers, preschool, and schoolage. However, as the table below shows, only 7% of centres do this. Most serve either 2 age groups (typically preschoolers and schoolage) or 3 age groups (most often infants, toddlers and preschoolers), and some serve only 1 age group (typically either preschoolers or schoolage). Commercial centres are disproportionately likely to serve all four age groups.

⁶ Some details about the Operating Criteria measures, by age group, are included in Appendix A to this document.

TABLE 1
PERCENT OF CENTRES SERVING DIFFERENT NUMBERS OF AGE GROUPS, CITY OF TORONTO, PURCHASE-OF-SERVICE AND MUNICIPAL CENTRES, 2007

	Commercial	Nonprofit	Municipal	Total
One age group	8%	23%	6%	19%
Two age groups	41%	44%	37%	43%
Three age groups	31%	29%	54%	32%
All four age groups	20%	4%	4%	7%
Total	100%	100%	100%	100%

BUILDINGS

52. Commercial, municipal and nonprofit centres are located in different types of buildings. For instance, 42% of all commercial centres are located in apartment buildings, so that 61% of all centres that are located in apartment buildings are commercial. And 63% of those centres located in a house are commercial. On the other hand, 94% of centres located in schools are nonprofits, and this forms 58% of all nonprofit centres.

TABLE 2
NUMBER OF CENTRES LOCATED IN DIFFERENT TYPES OF BUILDINGS, BY AUSPICE, CITY OF TORONTO, PURCHASE-OF-SERVICE AND MUNICIPAL CENTRES, 2007

	Commercial	Nonprofit	Municipal	Total
Apartment Building	48	19	12	79
Community Centre	4	30	7	41
Purpose-built Facility	8	27	9	44
School	8	279	11	298
Religious Institution	12	41	4	57
House	15	7	2	24
Other	17	74	9	100
Total	112	477	54	643

SIZE

53. Commercial centres are typically larger, than nonprofits or municipal centres. The average size for a commercial centre is 74 spaces; for nonprofits, it is 60 spaces; for municipal centres, it is 54 spaces.

QUALITY SCORES

54. The table below shows average quality scores for commercial, nonprofit and municipal centres, for each age group (infants, toddlers, preschool, schoolage), and for each section (or subscale) of the Operating Criteria. Statistical significance of the differences is indicated by stars. So, for instance, the “***” beside the global quality score of 88.0 for infant rooms in the nonprofit column on the top row in the left-hand corner of the table indicates that this score (i.e., 88.0%) is significantly different (i.e., statistically significantly higher) than the average score of 81.9% shown for commercial centres in the next column. The double star beside the number 93.6 immediately to the right, indicates that the average score of 93.6% in infant rooms in municipal centres is statistically significantly higher than the average score for nonprofit infant rooms.

TABLE 3
AVERAGE QUALITY (I.E., OPERATING CRITERIA) SCORES BY AGE GROUP FOR COMMERCIAL, NONPROFIT AND MUNICIPAL CENTRES, CITY OF TORONTO, PURCHASE-OF-SERVICE AND MUNICIPAL CENTRES, 2007

	INFANTS			TODDLERS			PRESCHOOL			SCHOOLAGE		
	Com	NP	Mun	Com	NP	Mun	Com	NP	Mun	Com	NP	Mun
Classroom Quality	81.9	88.0**	93.6**	79.1	84.6**	92.2**	80.4	86.0**	92.9**	80.4	82.1	91.3**
Interaction Quality	81.2	90.3**	94.3**	81.2	86.9**	92.4**	81.8	88.9**	91.9**	83.0	86.6**	92.4**
Learning	80.2	85.9**	92.6**	76.9	83.5**	92.0**	77.7	85.0**	94.1**	78.4	80.6	91.8**
Physical Environment	73.8	79.6**	88.3**	73.9	77.6	87.8**	74.9	77.9	88.7**	80.8*	75.8	91.7**
Physical Needs	83.3	90.2**	95.6**	78.6	84.2**	93.9**	83.1	86.8**	95.1**	79.1	84.0**	90.5**
Health and Safety	82.6	86.2**	93.7**	81.7	85.7**	92.5**	82.4	86.4**	91.1**	81.7	82.8	90.0**
Program Planned	88.5	91.1	90.8	89.3	92.2**	92.1	88.4	91.6**	93.7	86.6	86.5	91.7
Structure of Day	83.7	88.8	92.8	85.6	89.9*	95.7*	86.3	87.7	94.2**	81.2	78.9	90.7*
Toys and Materials	n.a.	n.a.	n.a.	54.0	67.3**	86.3**	63.3	73.8**	91.7**	65.8	64.0	86.3**

Notes: ** - difference is significant at 5% level. * - difference is significant at 10% level. Differences refer to comparison of nonprofit to commercial, and municipal to nonprofit.

55. Several patterns are obvious and notable. First, the average scores on every scale in commercial centres for infant rooms, toddler rooms, and preschool rooms are below those of nonprofit centres (5-6 percentage points lower), and the scores on every scale are virtually always higher in municipal centres (5-8 percentage points or more). Second, the average scores for Toys and Materials are quite a bit lower for both commercial and nonprofit centres than the scores on other scales. Third, the gap between nonprofit classrooms and for-profit classrooms is wider for Interaction Quality than for other measures of quality.
56. Fourth, the school age classrooms infrequently show significant differences between commercial and nonprofit centres. Although nonprofit schoolage classrooms have significantly higher quality than commercial ones on the physical needs and interaction subscales, on most subscales commercial and nonprofit classrooms are not statistically different. And, on the physical environment subscale for schoolage children, commercial classrooms score higher (significant at a 10% level). However, municipal child care for schoolage children is consistent higher in quality than either commercial or nonprofit classrooms. Some schoolage programs do not operate in summer, and share school space over the course of the day, so it is possible that the schoolage category contains a somewhat heterogeneous mix of established and less-established programs. That subject remains for later analysis. Below, we will try to shed some light on the general patterns of nonprofit and commercial quality.

INPUTS TO CHILD CARE QUALITY

57. In theory, all child care operators, whether commercial, nonprofit or municipal, hire inputs that, in combination, provide a healthy play and learning environment and provide care and teaching for children during the day. These inputs produce a certain level of child care quality; different levels of child care quality have differential effects on children's development.
58. If there were no differences between nonprofit and commercial child care centres, they would hire approximately the same combinations of inputs and produce approximately the same levels of quality. We have already seen that quality levels are higher in nonprofit classrooms. This may mean that nonprofit classrooms use different combinations and amounts of resources to produce this differential quality. In this section, we look at the differential use of inputs by child care centres in this section. Later, we will want to investigate whether there are still quality differences between nonprofit and commercial child care classrooms when the use of different levels of inputs, or different levels of financial resources, is statistically standardized.

59. The average number of teaching staff hours per child per day may be an important determinant of child development in child care. The same is true of the percentage of these teaching hours provided by ECE-trained staff. The following table looks at these and other potential inputs to quality in nonprofit and commercial classrooms in the City of Toronto, by age group of children served.

TABLE 4
AVERAGE VALUE OF POSSIBLE INPUTS TO QUALITY BY AGE GROUP
FOR COMMERCIAL AND NONPROFIT CENTRES, CITY OF TORONTO,
PURCHASE-OF-SERVICE CENTRES, 2007

	INFANTS		TODDLERS		PRESCHOOL		SCHOOLAGE	
	Com	NP	Com	NP	Com	NP	Com	NP
Average Number of Teaching Staff Hours per Child Per Day	2.96	2.97	1.65	1.77**	1.03	1.03	0.56**	0.48
Average Number of ECE-qualified Teaching Hours per Child per Day	1.20	1.68**	0.79	1.14**	0.64	0.74**	0.36	0.33
Percent of ECE-qualified teaching	40.5%	57.2%**	48.3%	65.3%**	62.5%	72.1%**	65.8%	68.9%
Teaching Cost per Child per Day	\$39.9	\$52.5**	\$22.4	\$31.2**	\$15.1	\$19.1**	\$8.63	\$8.62
Cost of ECE-qualified Teaching Staff per Child per Day	\$19.4	\$33.7**	\$12.4	\$22.4	\$10.4	\$15.0**	\$6.15	\$6.55
Hourly Wage for ECE-qualified Teaching Staff	\$16.31	\$19.85**	\$15.87	\$19.48**	\$16.48	\$20.28**	\$16.99	\$19.90**
Hourly Wage for Untrained Teaching Staff	\$11.63	\$15.15**	\$11.66	\$14.54**	\$12.04	\$14.53**	\$12.04	\$14.35**
Teaching Staff Salary Expenditure as a Percent of all Salary Expenditure	73.3%	80.7%**	71.4%	79.6%**	70.4%	78.8%**	69.2%	77.4%**
Benefits as a Percent of all Salary Expenditure	10.2%	12.8%**	9.8%	12.3%**	9.5%	12.1%**	9.6%	11.3%**

Notes: Benefits (last row) are a centre-specific variable, rather than an agegroup-specific variable. This affects interpretation. For instance, the first entry in this row indicates that in commercial centres that have an infant classroom, benefits are 10.2% of salary. This is a statement about benefits for all staff in the centre, rather than a statement about only the staff working in the infant classroom.

** - difference is significant at 5% level. * - difference is significant at 10% level.

60. As a general statement, Table 4 shows that, for nearly all of the possible inputs to quality listed, there are significant differences between nonprofit and commercial classrooms. The number of ECE-qualified teaching hours per child per day (second row) is higher in nonprofit infant, toddler and preschool classrooms. Similarly, the percent of all teaching done by ECE-qualified teachers (third row) is higher in nonprofit infant, toddler and preschool classrooms. In general, the teaching cost per child per day, the cost of ECE-qualified teaching staff per child per day, the hourly wage for trained and untrained staff, and the proportion of all salaries made up by teaching salaries are all higher in nonprofit classrooms in comparison to similar classrooms in commercial centres. Finally, the centre-wide expenditure on staff benefits as a percent of staff salaries is higher in nonprofits than in commercial centres.
61. There are two main exceptions to the summary statements above. First, the average number of teaching staff hours per child per day (including both ECE-qualified and untrained teaching staff) is, as shown in the first row of Table 4, not consistently higher in nonprofit classrooms. For the most part, the average number of teaching hours is fairly similar by auspice, with a larger average for nonprofit toddler classrooms, but a larger average for commercial schoolage classrooms. This apparent anomaly is probably explained by two factors. First, the staff-child ratio is regulated for all classrooms, reducing variation in the total number of hours per child. Second, some differences in the total number of staff teaching hours are due to differences in the daily length of individual centre programs. If we have two centres with equal numbers of children, but one is open 10 hours a day while the other is open 9 hours a day, the first will, all else being equal, have a larger number of teaching hours per child per day. In other words, this variable is potentially an imperfect measure of inputs to quality.
62. The second and partial exception to the summary statements above is that quality inputs are not always higher in nonprofit schoolage classrooms than they are in commercial schoolage classrooms. It is true that hourly wages, benefits and the proportion of salaries going to teaching staff are all higher in nonprofit schoolage classrooms than in commercial classrooms. However, the teaching cost per child per day, the cost of ECE-qualified teachers per child per day, the number of ECE-qualified teaching hours per child per day, and the percent of all teaching done by ECE-qualified staff are not statistically different in for-profit and nonprofit schoolage classrooms. An explanation of this is beyond the scope of this report, but deserves further attention.

BUDGET AND REVENUE

63. There are strong average differences between nonprofits and commercial centres in the sources of revenue and the disposition of expenditures. The table below shows significant differences for most variables.

TABLE 5
AVERAGE VALUE OF REVENUE AND EXPENDITURE ITEMS BY AGE
GROUP FOR COMMERCIAL AND NONPROFIT CENTRES, CITY OF
TORONTO, PURCHASE-OF-SERVICE CENTRES, 2007

	INFANTS		TODDLERS		PRESCHOOL		SCHOOLAGE	
	Com	NP	Com	NP	Com	NP	Com	NP
Average Percent of Revenue Coming from Parents	15.8%	43.2%**	20.2%	45.0%**	24.6%	47.7%**	22.1%	50.4%**
Average Percent of Revenue Coming from Subsidy	81.0%**	41.8%	76.3%**	41.0%	71.7%**	40.0%	74.2%**	37.7%
Average Percent of Revenue Coming from Wage and Capital Grants	3.3%	14.4%**	3.5%	13.5%**	3.6%	11.7%**	3.6%	11.5%**
Total Expenditures in Centre per Child per Day	\$42.99	\$53.34**	\$41.01	\$47.91**	\$38.45	\$38.50	\$35.07**	\$28.24
Program Expenditure as Percent of Total Expenditure	3.95%	3.52%	4.17%	4.22%	4.37%	5.11%**	5.00%	7.62%**
Training Expenditure as Percent of Total Expenditure	0.50%*	0.41%	0.45%	0.48%**	0.41%	0.53%**	0.45%	0.68%**
Total Expenditure on Teaching Staff as Percent of Total Expenditure	66.0%	78.9%**	65.5%	76.4%**	65.0%	73.9%**	63.2%	70.2%**

Note: All of these variables are actually measured on a centre level, not on an age group level. This affects our interpretation of the averages given in this table. So, for instance, the first variable is the average percent of revenue coming from parents. For infants, we find that 15.8% of revenues in commercial centres comes from parents, compared to 43.2% of revenues in nonprofit centres. There is a temptation to interpret these numbers as saying that 15.8% of the revenues in infant rooms in commercial centres comes from parents (and 43.2% of revenues in infant nonprofit rooms). Because the data are centre-level data, they do not, however, refer to the revenue generated by infant rooms alone. The correct interpretation is that for commercial centres that have infant classrooms 15.8% of the total centre revenue comes from parents (and for nonprofit centres that have infant classrooms, 43.2% of the total centre revenue comes from parents). Similarly, for the variable "Total Expenditures in Centre per Child per Day", the number \$42.99 is not the average expenditure per child in infant rooms. Instead, it is the average overall centre expenditure per child in those commercial centres that have infant rooms. This is the average expenditure over all the children in the centre, not just the infant children..

** - difference is significant at 5% level. * - difference is significant at 10% level.

64. The first two rows of Table 5 show that the clientele or customer base served by nonprofit and commercial centres is quite different. A much smaller percentage of the centre revenues in commercial centres comes directly from parent fees,

and a much larger percentage comes from serving subsidized children. Further (third row), nonprofit centres get more revenue through wage and capital grants. Overall, the total expenditure per child per day is higher in nonprofit centres that have infant or toddler classrooms. However, expenditure in centres that have preschool classrooms is not statistically distinguishable, and is higher in commercial centres that have schoolage classrooms.

DETERMINANTS OF QUALITY

65. Research has found that increased proportions of ECE- qualified staff, and better compensation for teachers are, along with other factors, associated with higher quality services. We have seen above that although the total number of teaching staff hours per child is not always substantially different between nonprofit and commercial child care centres, there are consistently significant differences, by auspice, in the proportion of contact hours delivered by ECE-qualified staff and the hourly wages paid.

66. The table below shows correlation coefficients between two different measures of quality (Classroom Quality and Interaction Quality) and a variety of potential determinants of quality. Stars indicate the statistical significance (two stars at 5%; one star at 10%) of these relationships. Correlation coefficients measure the extent of the linear association between two variables. A correlation coefficient of 1.00 would indicate perfect positive correlation; a correlation coefficient of -1.00 would indicate perfect negative correlation. A correlation coefficient of 0.00 would indicate no linear relationship between two variables.

TABLE 6
CORRELATIONS BETWEEN OBSERVED CLASSROOM QUALITY SCORES
AND POTENTIAL DETERMINANTS OF CLASSROOM QUALITY BY AGE
GROUP, CITY OF TORONTO, PURCHASE-OF-SERVICE CENTRES, 2007

Variables correlated with quality	INFANTS	TODDLERS	PRESCHOOL	SCHOOLAGE
Teaching staff hours per child per day for this age group	-0.10	0.06	-0.02	0.03
Percent of teaching hours provided by ECE-qualified staff for this age group	0.17**	0.21**	0.22**	0.07
Hourly wage of ECE-qualified staff in this age group	0.42**	0.35**	0.17**	0.06
Percent of children receiving subsidy in this age group – nonprofit	-0.28**	-0.22**	-0.07	-0.15**
Percent of children receiving subsidy in this age group – commercial	-0.02	0.03	0.23**	0.22**
Supervisor hours per centre space per day	0.16**	0.03	0.03	0.11
Total Expenditure per centre space per day	0.36**	0.24**	0.16**	0.17**
Benefits as percent of total salary expenditure	0.21**	0.19**	0.23**	0.21**
Teaching staff salary expenditure as percent of all salary expenditure	0.18**	0.24**	0.08	0.04
Percent of revenue from parents - nonprofit	0.32**	0.18**	0.12**	0.09
Percent of revenue from parents - commercial	0.07	0.01	-0.18**	-0.18

Note: these correlations are calculated using data only from commercial and nonprofit classrooms. Data on many of the budget variables are not yet available for analysis from municipal centres.

** - correlation is significant at 5% level. * - correlation is significant at 10% level.

TABLE 7
CORRELATIONS BETWEEN OBSERVED INTERACTION QUALITY
SCORES AND POTENTIAL DETERMINANTS OF INTERACTION
QUALITY BY AGE GROUP, CITY OF TORONTO, PURCHASE-OF-SERVICE
CENTRES, 2007

Variables correlated with quality	INFANTS	TODDLERS	PRESCHOOL	SCHOOLAGE
Teaching staff hours per child per day for this age group	-0.08	0.06	-0.05	-0.01
Percent of teaching hours provided by ECE-qualified staff for this age group	0.12	0.13**	0.21**	0.05
Hourly wage of ECE-qualified staff in this age group	0.36**	0.26**	0.19**	0.09
Percent of children receiving subsidy in this age group - nonprofit	-0.14	-0.21**	-0.10**	-0.13**
Percent of children receiving subsidy in this age group - commercial	-0.11	0.07	0.13	0.25**
Supervisor hours per centre space per day	0.14	0.06	0.02	0.09
Total Expenditure per centre space per day	0.28**	0.12	0.08	0.10
Benefits as percent of total salary expenditure	0.22**	0.14**	0.16**	0.18**
Teaching staff salary expenditure as percent of all salary expenditure	0.19**	0.17**	0.08	-0.01
Percent of revenue from parents - nonprofit	0.24**	0.18**	0.17**	0.14**
Percent of revenue from parents - commercial	0.03	-0.07	-0.15	-0.23*

Note: these correlations are calculated using data only from commercial and nonprofit classrooms. Data on many of the budget variables are not yet available for analysis from municipal centres.

** - correlation is significant at 5% level. * - correlation is significant at 10% level.

67. We have seen above the differences between nonprofit and commercial classrooms in inputs that may potentially affect quality. Tables 6 and 7 provide information about how much effect these inputs are likely to have.

68. Broadly, we can summarize information in these two tables in the following points:
- the total number of teaching hours per child per day is not significantly correlated with either of the quality measures in this data
 - the percent of teaching hours taught by ECE-qualified staff has a positive effect on both measures of quality, but not for schoolage classrooms
 - the hourly wage of ECE-qualified staff has a significant positive association with both measures of quality, but not for schoolage classrooms
 - the percent of children receiving subsidy in the classroom has a significant negative association with both measures of quality in nonprofit classrooms (except infants), but either no association or a positive one with quality in commercial classrooms. Correspondingly, the percent of centre revenue coming from parent fees is positively associated with quality in nonprofit classrooms, but, if anything, negatively so for commercial classrooms
 - the number of supervisor hours does not have a clear association with quality (although other features of supervisory activity might)
 - the total expenditure across the centre per space per day is significantly positively associated with Classroom Quality, but for most age groups there is no significant association with Interaction Quality.
 - Benefits as a percent of salary is positively associated with both Classroom Quality and Interaction Quality
 - The percent of all salaries going to teaching staff has positive associations with both measures of quality for infant and toddler classrooms, but not for preschool or schoolage classrooms.
69. As a general statement, we can conclude that many of the significant input and expenditure differences between nonprofit and commercial classrooms are likely to be correlated with differences in both Classroom and Interaction Quality. The input and expenditure differences will go a long way towards explaining the observed differences in quality between nonprofit and commercial classrooms.

BEYOND THE INPUT AND EXPENDITURE DIFFERENCES, DOES NONPROFIT STATUS MATTER?

70. The question posed in the heading to this section may seem silly. If nonprofit and commercial classrooms make different decisions about what inputs to hire, and that results in a higher level of quality for children in nonprofit classrooms, do we need to seek a further role for nonprofit status? Some people may

perceive the question as similar to the one asked in the familiar (if somewhat tasteless) joke: “Apart from that, Mrs. Lincoln, how did you enjoy the play?”

71. However, it has been suggested that although nonprofit centres may produce higher quality child care, this higher quality is purely a function of the extra resources nonprofit centres are able to attract (from governments and elsewhere). So, we must try to determine whether differences in quality would still exist if the amount of financial resources or inputs were the same for nonprofit and commercial centres.
72. We attempt to look at that issue in Tables 8 and 9. The tables below show tests of the statistical significance of nonprofit status controlling for the amount of resources available to a centre, or for the differential use of inputs by classrooms in centres. Each cell reports the results from a statistical regression designed to explain observed variations in quality across nonprofit and commercial classrooms. The left hand column shows which statistical controls are used in each regression. The rest of the columns show the size and sign of the estimated coefficient on nonprofit status, as well as whether this estimate is statistically reliable or not (significantly different from zero).

TABLE 8
REGRESSION RESULTS ON SIGNIFICANCE OF NONPROFIT STATUS IN DETERMINING CLASSROOM QUALITY CONTROLLING STATISTICALLY FOR DIFFERENCES IN FINANCIAL RESOURCES AND OTHER INPUTS TO QUALITY

Statistical Controls used in regression	INFANTS	TODDLERS	PRESCHOOL	SCHOOLAGE
Total cost of teaching staff employed with this age group per child per day	4.82**	2.32	4.67**	3.18**
Total cost of teaching staff employed with this age group per child per day, and percentage of spaces for this age group occupied by subsidized children	3.29**	1.72	4.57**	1.56
Total expenditure per centre space per day	4.12**	4.69**	5.81**	3.65**
Total teaching staff hours per child per day, and percent of teaching hours from ECE-qualified staff	5.36*	3.38**	3.41**	-0.64

Notes: ** - estimated nonprofit coefficient is significant at 5% level. * - estimated nonprofit coefficient is significant at 10% level.

73. Broadly, we can interpret the regression results for Classroom Quality this way:
- Controlling for the amount of expenditure on teaching staff per child per day, nonprofit status still has a significant positive effect on Classroom Quality in infant, preschool and schoolage classrooms. In other words, nonprofit provision matters positively for quality even when we are only comparing classrooms that are spending the same amount on the total annual cost of the teaching staff employed with this age group. The independent effect of nonprofit status on quality (in addition to the effect of the differential choice of inputs) is between 3 and 5 percentage points.
 - If we add a statistical control for differences in the client base served (the percentage of spaces occupied by subsidized children), essentially the same pattern is observed, although the role of nonprofit provision in schoolage rooms loses significance and becomes smaller.
 - When we instead control statistically for total expenditure per space in the centre per day, the estimated independent effect of nonprofit status is significant for all age groupings and ranges from 3 to 6 percentage points.
 - The final row controls not for the total amount of financial resources available, but for how these resources are used. We have seen above, in particular, that nonprofit classrooms use a substantially higher percentage of ECE-trained staff than do commercial classrooms. If we compare classrooms that have similar amounts of teaching staff hours per child per day and the same percent of those teaching hours provided by ECE-qualified staff, nonprofit classrooms still have a quality advantage, except for schoolage children. This nonprofit advantage is from 3 to 6 percentage points on the Classroom Quality scale.

TABLE 9
REGRESSION RESULTS ON SIGNIFICANCE OF NONPROFIT STATUS IN DETERMINING INTERACTION QUALITY CONTROLLING STATISTICALLY FOR DIFFERENCES IN FINANCIAL RESOURCES AND OTHER INPUTS TO QUALITY

Statistical Controls used in regression	INFANTS	TODDLERS	PRESCHOOL	SCHOOLAGE
Total cost of teaching staff employed with this age group per child per day	8.26**	2.16	5.96**	4.67**
Total cost of teaching staff employed with this age group per child per day, and percentage of spaces for this age group occupied by subsidized children	7.36**	1.41	5.47**	3.77*
Total expenditure per centre space per day	7.23**	5.28**	7.16**	5.12**
Total teaching staff hours per child per day, and percent of teaching hours from ECE-qualified staff	9.41**	4.80**	6.16**	3.67**

Notes: ** - estimated nonprofit coefficient is significant at 5% level. * - estimated nonprofit coefficient is significant at 10% level.

74. Table 9 reports on regression results for Interaction Quality. The character of interactions between caregivers and children are more difficult for parents to observe directly than other aspects of quality, but are likely to be very important for language, cognitive, social and emotional development of the child.
75. The pattern of results is similar to those for overall Classroom Quality, but the size of the independent effect of nonprofit status on Interaction Quality is larger. Except for the two insignificant effects for toddler classrooms, the estimated impact of nonprofit status varies from nearly 4 to over 9 percentage points on the Interaction Quality scale. Further, on Interaction Quality, nonprofit status always has a positive and significant estimated effect in schoolage classrooms.

GEOGRAPHIC DIFFERENCES

76. The complete analysis of the role of geographic-related differences remains for another time (e.g., geographical variations in quality, geographical differences in wages, program auspice, type of buildings in which centres are resident, percent of ECE-trained staff, etc.). Preliminary analysis of the data suggests this may be important. If we separate centres located in wards located in Scarborough or

Etobicoke, we find that quality is, on average, between one and five percentage points lower in these wards. This difference is significant for infant, preschool and schoolage rooms, though not significant for toddler rooms.

MULTIPLE-UNIT COMMERCIAL OPERATIONS

77. Toronto does not have large corporate commercial child care operators. The largest commercial chain in Toronto has 9 centres with purchase-of-service agreements with the City. Therefore, the City of Toronto data cannot directly provide information about how the arrival of a large multinational child care chain operator would affect quality of services provided. Preliminary data analysis suggests that the current small commercial chains are not statistically distinct from other for-profit operators (i.e., they are neither consistently better nor consistently worse). In other words, nonprofit operators are, in the statistical analysis so far, better at producing quality child care services than either independent for-profit operators or small commercial chains. There are, of course, multiple-centre nonprofit operators with 60, 29 and 9 centres, and a number of smaller multiple-unit nonprofits. The City of Toronto is a multiple-unit operator with 54 centres.

COMPARING QUALITY IN TORONTO TO OTHER JURISDICTIONS

78. Toronto's Operating Criteria have not been validated against other scales used to measure quality in child care classrooms. Although there are strong general similarities between the Operating Criteria and other quality measures, it is not certain that they are measuring the same thing. Further, the Operating Criteria use a 4-point scale, with a pass mark of 3. ECER and ITERS use a 7-point scale (in which a score of 1 is inadequate, 3 is mediocre, 5 is good and 7 is excellent). The scales designed specifically for the Grandir en Qualité study in Quebec have a four-point range with a pass mark of 2.5. It is not clear that distances between numbers measure the same quantities on different scales. Under these circumstances, comparisons of quality across jurisdictions are somewhat heroic.
79. However, with these qualifications, we can turn scores on different scales into percentage measures and look at how Toronto compares. Comparing results, in percentage terms, to those found in other jurisdictions, it would appear that average quality in Toronto is higher and the spread between commercial and nonprofit scores is somewhat narrower than elsewhere. So, for instance, the average difference in quality scores in Quebec in preschool classrooms after controlling for resource differences is 8-9 percentage points (on a base of 61%). The average difference in quality scores in infant classrooms is about 12 points. In analysis of the You Bet I Care! data from across Canada (using ECERS-R and ITERS measures), the average quality level is about 65% in thick markets, with a difference of about 9 percentage points in quality, with various controls for resource and input differences. In the City of Toronto data set, the average score

varies across classrooms but is over 80% for nonprofit and commercial classrooms. The variation between nonprofit and commercial classrooms is between 3 and 6 percentage points for Classroom Quality with various different controls for resource differences.

80. Even though the pass mark in Toronto is 66.6%, instead of 50% in Grandir, for instance, the obvious conclusion is that extra monitoring and regulation of purchase-of-service centres done by the City of Toronto has some impact on centre quality. It appears that quality scores are higher, relative to the pass mark, in Toronto, and that the spread of difference between nonprofit and commercial scores is less. However, because the instruments used to measure quality in Toronto (items from the Operating Criteria) are different than those used in other jurisdictions, this comparison is inexact and, necessarily, tentative.

SUMMARY AND CONCLUSIONS OF DATA ANALYSIS

81. The data collected by the City of Toronto on quality, on inputs to the production of child care services, and on budget and finances are very rich and complex. There are a number of worthy questions that this data can address, but are beyond the scope of this report. Here are several examples:
- the interrelation between the multiple determinants of quality of services in child care centres in Toronto (what are the tradeoffs; what is the relative contribution of different inputs to quality?)
 - the key correlates/determinants of either very good quality services, or problematically poor quality services
 - the role of geography and income in affecting the production of quality services, including the role of high need areas, and areas in which there are substantial numbers of lower income families
 - the puzzle of services for schoolage children, where many potential determinants of quality do not appear to play as important a role as might be expected, and where services in nonprofit classrooms are of lower quality than in classrooms for other age groups
 - the determinants of quality in directly-operated municipal centres (some data on inputs are not currently available to include these centres in the analysis)
 - including other aspects of the Operating Criteria in our measures of quality: for instance, outdoor playground equipment, the nutrition and provision of food to children, the administration of the various policies and procedures involved in operating the centre, the soundness of financial record-keeping and planning, and the integration of this child care service with other child and family services in the community.

82. However, the data analysis summarized in this report does paint a fairly consistent picture of differences between nonprofit and commercial child care in the City of Toronto. We can summarize the broad picture from this data analysis in the following points:
- (a) Average quality in nonprofit classrooms, whether measured by Classroom Quality or Interaction Quality, is consistently higher in infant, toddler and preschool rooms than in corresponding age groups in commercial centres. Interaction Quality is significantly higher in nonprofit classrooms for schoolage children, but not Classroom Quality. Care in municipal centres is better everywhere.
 - (b) For infant, toddler and preschool classrooms, nearly all of the potential inputs to quality are significantly higher in nonprofits. The pattern is mixed for the inputs to quality in schoolage classrooms.
 - (c) Classrooms in nonprofit centres get more of their revenue from parent fees, and less from subsidies to lower-income families; commercial centres in the City of Toronto tend to specialize in the provision of service to subsidized families. Expenditures on teaching staff are higher in nonprofit classrooms, and so are total expenditures, in general. However, for centres with schoolaged classrooms, commercial centres have higher levels of total expenditure per child per day.
 - (d) Correlation coefficients indicate statistically significant relationships between the two measures of quality and a number of potential determinants of quality (i.e., inputs to quality). These include the percent of teaching hours provided by ECE-qualified staff, the hourly wages of ECE-qualified staff, the percent of children receiving subsidy, the percent of revenue coming from parent fees, and benefits as a percent of salary. Total expenditure in the centre per child per day has positive effects on Classroom Quality, but does not generally affect Interaction Quality (except for infants). Clearly, the differences in input amounts and input choices of nonprofit centres contribute to their quality advantage over commercial centres.
 - (e) Regressions that statistically control for differences in the amount of financial resources available to centres, or for the teaching inputs used in classrooms, find that nonprofit status generally makes an independent contribution to quality beyond differences in financial resources or input amounts. The size of this independent nonprofit quality advantage is typically 3-6 percentage points on Classroom Quality and 4-9 percentage points on Interaction Quality.

- (f) Comparing these results, in percentage terms, to those found in other jurisdictions, it would appear that average quality in Toronto is higher and the spread between commercial and nonprofit scores is somewhat narrower than elsewhere. The obvious conclusion is that extra monitoring and regulation of purchase-of-service centres done by the City of Toronto has some impact on centre quality. However, because the instruments used to measure quality in Toronto (items from the Operating Criteria) are different than those used in other jurisdictions, this comparison is inexact and, necessarily, tentative.

Australian Child Care and ABC Learning Centres

83. Australia is both the home of the largest commercial child care chain in the world – ABC Learning Centres – and the source of a valuable object lesson for understanding the link between policy design and the evolution of a child care system.
84. ABC Learning is, obviously, the largest for-profit provider of child care in Australia. Since listing on the stock market in 2001, ABC Learning has bought out most of its corporate rivals as well as many small community and individual individual-operator services (Brennan, 2007: 217). In 2006, it operated 905 long day care centres in Australia and anticipated that in 2007, it would operate about 20% of Australian long day care centres (ABC Learning, 2006: 5, 8). In fact, Brennan’s estimate is that ABC Learning Centres currently provides at least 30% of all child care spaces, including 50% or more in the State of Victoria and in the Prime Minister’s home state of Queensland.
85. How did this happen? Key to the expansion and profitability of ABC Learning and other private for-profit corporations in Australia was the change in government funding mechanisms from 1996-2005. In the late 1990’s, the operational funding provided to long day care programs directly by the Commonwealth (i.e., federal) Government was changed to the Child Care Benefit (CCB), a fairly generous (covering families earning up to about \$108,000 annually) means-tested subsidy to parents paid in advance to long day care centres on behalf of parents. In addition to the CCB, the Commonwealth Government also provides a child care tax rebate (CCTR) for 30% of the remaining out-of-pocket child care expenses to families. This rebate payment no longer requires that families have tax payments to offset. The recently-elected Australian Labour Party has promised to increase this tax rebate from 30% to 50% of out-of-pocket child care costs.
86. These funding mechanisms have created very significant profit opportunities for opportunity-minded corporate firms. ABC Learning has reported that fully 40% of its revenues come from government subsidies; in 2006, it reported a net profit

of \$37.1 million for fiscal year ended December 31, 2007. Child care fees are high by Canadian standards. Across all centres and age groups the average price of care is over \$50 per day. In major metropolitan areas, prices of \$60-\$100 per day are common.

87. Regulations are lower than is typical in Canada. For example, staff:child ratios in most states are 1:5 for infants and toddlers; 1:10 for preschoolers; and 1:15 for over 4's. Most states and territories do not require teacher qualifications for long day care centre staff. The National Childcare Accreditation Council, established in 1993, administers the Child Care Quality Assurance system. This body has been set up to accredit centres for the purposes of claiming eligibility to the CCB and CCTR. The Council accepts the state regulations, requires centres to self-report and has modest monitoring and enforcement capacity. This may change in the future, but it has provided an optimal environment for Australian company to operate based on minimum standards without undue interference from government.
88. Despite the high fees and extensive government subsidies, average hourly earnings of child care workers are still low. A 2004 study found that average hourly earnings of child care workers were \$14.90 compared to an average male employed in carpentry and joinery trades earning \$23 per hour and an unqualified food factory hand earned \$21.30 per hour. (Brennan, 2007)

Child Care Policies in Canada and the Role of the NAFTA agreement

89. Child care in Canada is funded in a number of different ways. All provinces and territories other than Quebec have subsidy systems, through which low-income families engaged in employment or training are able to have all or part of their fees for regulated child care services covered by the government. For the most part, the income rules governing these subsidies ensure that only a small percentage of families, typically lone parent families with incomes below about \$20,000, are eligible for significant amounts of subsidy.
90. The other main form of funding, outside Quebec, is the Child Care Expense Deduction. Families with working parents are eligible to have expenses on child care (up to \$7,000 for a child less than 7 years) deducted from the earnings of the lower-earning spouse before taxes are calculated. This deduction can reduce taxes otherwise payable by up to about \$2,800; in other words, the child care spending is treated as a necessary work expense, and therefore not taxable. This deduction may encourage families to spend more on child care than they would if there were no deduction.
91. Inside Quebec, eligible child care facilities receive considerable subsidies from the Quebec government for delivering child care services at a price to parents of

\$7 per day. The large majority of these subsidies go to nonprofit child care centres or family child care homes; although for-profit operators are now eligible for equal amounts of subsidization, they form a smaller part of the facilities, because nonprofit Centres de la Petite Enfances (CPE's) were originally favoured to be the backbone of the new child care system.

92. Up until this point, the child care funding system in Canada has not encouraged significant interest from multinational corporate child care chains. Both the low-income subsidy system and the Child Care Expense Deduction have not been sufficiently generous to provide the kind of guaranteed operating revenues that the Child Care Benefit and the Child Care Tax Rebate have in Australia. Further, historically the Saskatchewan, Manitoba and Quebec governments have tended to strongly favour nonprofit providers to deliver services.
93. However, there are some important changes in funding that may alter this situation. First, the Government of Ontario has, since the beginning of 2007, made eligibility for low-income subsidies considerably more generous. A two-parent family with a child 3-5 years of age can now receive some subsidy up to an income level of over \$60,000, and at higher income levels for younger or more children. This means that many more families are potentially eligible for child care subsidies in Ontario. There are still caps on the total number of provincial subsidy dollars, and the requirement for a substantial municipal contribution limits subsidy expansion, but there is considerable potential over time for this to begin to function like an Australian Child Care Benefit in Ontario (since both nonprofit and for-profit child care firms are eligible). Of course, this depends on the purchase-of-service subsidy policy of municipalities, as well.
94. The second major factor that will interest multinational corporate child care providers is the recent "leveling of the playing field" by the Charest government in Quebec. The Quebec child care reforms, begun in 1997, were originally designed to centre around nonprofit CPE's. However, for-profit firms were "grandparented" into provision of services during what was intended to be a transitional period. At the beginning, for-profit firms received lower amounts of subsidy dollars to provide \$5 per day child care, but also were required to hire fewer trained staff. Now, subsidy dollars and requirements have been equalized in an attempt to allow for-profit firms to play a bigger role over time in providing services. Although the provision of services in French would be a challenge for most multinational corporate child care chains, they could decide to partner with local private operators in a major expansion of services into Quebec.
95. Recently, an international child care chain has been trying to establish operations in at least three Canadian provinces. While the corporate actors involved have declined to make their plans public, over the past six months child

care service providers in Ontario, BC and Alberta have received letters from two individuals representing a “large financial/child care group purchasing child care centres across Ontario/B.C./Alberta”. The letter expresses an interest in purchasing the recipients child care centre. The return address is to “Adroit Investments” at a post office box in North Carolina.

96. Other corporate entities appear to be involved in the acquisition scheme, including a company named 123 Busy Beavers Learning Centres, which was recently registered in Ontario, British Columbia and Alberta. While their relationships are blurred, 123 Busy Beavers, Adroit Investments, and another company named 123 Global Holdings (North America), have all been linked to the Australian multinational ABC Learning Centres, the world’s largest child care corporation.
97. Since the announcement of 123 Global’s expansion intentions, the share price of ABC Learning Centres has dropped dramatically (from about \$8 per share to about \$1.50 per share) due to investor concerns about high levels of debt, a lack of transparency about shareholding arrangements of Board members, and concerns about peculiarities of corporate governance. Eddy Groves, Le Neve Groves and two other directors were initially forced to sell about \$52 million in stock to cover debts. A tentative sale of 60 per cent of ABC's US assets to Morgan Stanley Private Equity was arranged. It is understood that the majority shareholder is now the investment arm of the Singapore government. The company has been sending reassuring messages to parents and staff saying that their stockmarket problems will not affect their day-to-day delivery of child care services in Australia, but, in the medium term, there clearly could be changes in programs and services.
98. It is unclear how these developments have affected or will affect corporate expansion plans in Canada. Should the acquisition plan succeed, the result would establish the first large chain of for-profit child care centers in Canada. While a few Canadian child care companies now run a handful of facilities, these operations are relatively small and limited to particular urban centres. The scale of this present acquisition scheme is unprecedented in Canada and has the potential to establish a consolidated corporate presence in a social service sector that is currently dominated by not-for-profit day care centers, many of which are run by community-based organizations. It is not our purpose here to assess the broader implications of such a development, but rather to assess its implications in light of Canada’s obligations under NAFTA rules concerning foreign investment in social services.

99. In December 2007, Code Blue and the Ontario Coalition for Better Child Care commissioned a legal opinion from expert trade lawyer, Steven Shrybman of Goldblatt Mitchell, on this issue.
100. NAFTA accords foreign investors certain rights as soon as investments are established in Canadian child care service businesses. Most notable is the right to claim damages where it is alleged that government measures effectively expropriate their investments. Because expropriation is broadly defined, a plan by government to establish a publicly funded child care system, where funding is restricted to not for profit providers, could be considered to breach the NAFTA prohibition against expropriation. The risk of such claims is proportional to the size of the commercial stake foreign investors have in the sector.
101. Schrybman argues that, currently, government can allocate public funding to not-for-profit providers even though the effect is to discriminate against foreign investors because in the NAFTA, Canada established an exemption for certain measures relating to social services:
Canada reserves the right to adopt or maintain any measure with respect to the provision of public law enforcement and correctional services, and the following services to the extent that they are social services established or maintained for a public purpose: income security or insurance, social security or insurance, social welfare, public education, public training, health, and child care. [emphasis added]⁷. (Schrybman, 2007)
102. As Schrybman argues: “*The character of this ‘social services’ reservation is such that Canadian governments are entitled, not only to maintain existing social service programs and regulations, but to establish new ones. This is true even where such initiatives explicitly restrict the rights of foreign investors or service providers, such as by prohibiting foreign investment in the child care sector.*
Even so, it is possible that such discriminatory treatment could found a claim for expropriation where the public funding regime was such as to significantly reduce a for-profit providers market share. But again, this problem can only arise if foreign investors are permitted to establish a significant commercial presence in the child care sector.
In order to qualify as a foreign investor under NAFTA investment rules, Adroit Investments, 123 Global Holdings, ABC Learning, or their shareholders need only be resident in the United States or Mexico. Moreover should any or all of these companies acquire investments in child care businesses in Canada, they are entitled to assert the rights accorded foreign investors on NAFTA investment rules, including the right to bring a claim damages before an international tribunal where it is alleged that some action by a Canadian government, including a provincial or municipal government, interfered with their rights under NAFTA. For this purpose, they need only own shares in a company providing child care services in Canada. Once foreign investment in the child care sector is permitted, the rights of such investors become vested under the North American Free Trade Agreement (NAFTA), and these include the right to make damage

⁷ NAFTA Annex II.

claims where government measures impinge on those investments. For example, if a program of full-day learning for four- and five-year-olds attending junior and senior kindergarten is implemented, this may engage the application of trade rules. The risk of such a claim is proportional to the extent of foreign investment in the sector.

Canadian governments currently have the authority to prohibit foreign investment in, as well as the privatization of child care services without running afoul of international trade rules. However, if governments fail to use this authority to prevent the establishment of a significant foreign investor presence in the sector, they will invite the application of trade rules that limit their future policy and program options. Should this occur, NAFTA investment rules will make it very difficult for governments to reverse course to favour not-for-profit and community based child care, and will also render certain forms of child care regulation vulnerable to challenge before NAFTA tribunals. In light of current uncertainty about the future direction of federal child care policy, the prudent course for provincial governments wishing to preserve their options, would be to restrict foreign investment in the child care sector. Other experts have stressed the importance of “the presence of significant private or foreign investment to establishing or expanding public/non-profit delivery”.⁸

If foreign investors establish a commercial presence in the sector, Canada’s claim to protection afforded by a key NAFTA exception for social services is weakened. This would further expand the potential scope for NAFTA based claims challenging government child care policies, laws, programs and regulations.

103. Finally on this point, it is unclear where the tipping point will be in determining whether a child care system is private or commercial in character. However, there is no doubt that Canada’s claim to the protection afforded by Canada’s social services reservation will be weakened if private investors are allowed to establish a substantial commercial presence in the child care sector.

Conclusions

104. Most of the public benefits from child care are directly related to the positive effects on children from good quality early childhood education and care. There are a wide variety of factors that affect the quality of services provided, and we do not fully understand these factors and their interactions. However, we do know that nonprofit classrooms generally use more of the relevant quality-producing inputs than do commercial classrooms in creating child care services for children, and they are successful in producing higher quality child care services. Even holding statistically constant the differential resources available for nonprofit child care, there is a remaining nonprofit quality advantage. This is consistent with the large majority of other empirical studies of quality differences by auspice in child care.

⁸ Jon Johnson; *How Will International Trade Agreements Affect Canadian Health Care?* Commission on the Future of Health Care in Canada, Sept. 2002.

105. This nonprofit advantage is contrary to what we might expect from a crude knowledge of economic theory. However, economics predicts that market failures may result in situations of asymmetric information, when the differences in information relate to matters of significant public interest. The issue of the quality of early childhood education and care services is an important example of this market failure. Normal competitive market mechanisms will lead to care that is of mediocre quality, especially for those aspects of quality (e.g., interactions) that are most difficult to observe. In this situation, nonprofit providers have incentives to produce quality child care that are more compatible with the interests of parents and governments than do for-profit providers. This leads to consumer and government trust in relying primarily on nonprofit providers. This incentive-compatibility may explain why nonprofits have a quality advantage.
106. The preference for nonprofit (or public) providers in the provision of services where “quality” is difficult to measure and monitor is commonplace. This is the primary explanation for the ways in which Canada delivers primary and secondary education services, university education, hospital care, Children’s Aid services, collection and distribution of charitable donations, and many social and children’s services. This is, no doubt, a primary motivation behind the City of Toronto’s decision several years ago to ensure that future developments in the provision of child care services will be in the nonprofit and public sectors.
107. However, we also know that nonprofit status by itself is no guarantee of quality services. Nonprofits do not have incentives to make profits at the expense of quality, but they can have other objectives instead of, or in addition to, the provision of quality services (e.g., keeping prices low for a local population, transferring surplus from child care operations to other activities of the nonprofit agency, increasing staff remuneration). Further, nonprofit agencies may be less sophisticated, and more informal, in the management of their operations than a corresponding commercial agency would be.
108. Therefore, relying on nonprofit agencies for the delivery of child care services will have, and has had, benefits for the City of Toronto. But, the corresponding supportive, monitoring and assessment activities of the City are key to ensuring good performance. Suggestions are made in the recommendations below for enhancing this supportive role.
109. The potential threat of a significant buyout of a substantial number of child care centres by a multinational child care chain forces consideration of the long-term future of the entire sector. There is evidence from Australia (and the U.K.) that, when there are significant amounts of public dollars available, commercial chains can move quickly to dramatically increase the proportion of commercial

providers over a few years. Canadian policy-makers and citizens need to decide prior to these developments whether this would be in the public interest. Interpretation of the NAFTA rules suggest that this decision may, in practice, become irreversible if a substantial commercial presence becomes established.

110. To the extent that having high quality early childhood education and care services is important for Toronto, Ontario, and Canada, the evidence suggests that a large commercial presence would be detrimental both for average quality of services (particularly interaction quality), and for the ability of governments to monitor and regulate child care in ways that improve quality. This suggests that the City of Toronto should hold to its current policy course, and should lobby other governments to adopt a similar policy – future developments should occur in the nonprofit and public sectors. There should be a public declaration that the future of Canadian child care will not be as a commercial service, but as a service that serves public, parental and children’s interests.

Recommendations for Action by the City of Toronto

1. *The City of Toronto should continue its policy, adopted in 2004, of encouraging the growth of nonprofit child care, by restricting new or expanded purchase-of-service agreements to take place in not-for-profit facilities.*
2. *The City of Toronto should continue annually collecting Operating Criteria data (and budget and financial data) from centres with which it has purchase-of-service agreements and municipal centres. These data are key to the City’s objective of monitoring a wide range of quality-related performance data in child care. There is evidence that this monitoring function is effective in raising the overall level of quality in Toronto centres, relative to those in other jurisdictions.*
3. *Since there is a public interest in ensuring quality services in centres that do not have purchase-of-service agreements in Toronto, the City should consider means of extending the obligation to report on measures of quality to currently uncovered centres. Initially, this reporting requirement could extend to all service providers that receive rent subsidies, wage subsidies or other public funding. The City could encourage the province to share the costs of this extension and to collect similar data from centres across the province as a means of carrying out their regulatory, licensing and monitoring functions.*
4. *The Operating Criteria apparently serve their monitoring function reasonably well. However, their status as accurate measures of child-development-related quality has not been validated. The City should have these Criteria validated, adapting them as necessary for this purpose (e.g., the “pass mark” may change, or they may be measured on a 5-point instead of a 4-point scale). This has become more important with the decision to publish*

Operating Criteria on the web site and have them posted in centres. The City could use this occasion to confirm that parents also care about the same measures of quality when considering items that promote child development.

5. *The City of Toronto should encourage the Province of Ontario to follow municipal leadership in evolving the current hodge-podge child care system in the province into a more coherent and integrated system of nonprofit and public providers. Amongst other policy changes, this would require the province to declare, as Toronto has, that future developments will occur in the nonprofit and public sectors, and that the for-profit child care sector in the province will be grandparented into a gradually declining role. The objectives of this policy would be to enhance child care quality, and, in the context of NAFTA, to preserve the ability of the province to establish full-day junior and senior kindergarten, or other innovative early childhood education policies. In other words, the child care system would serve public purposes, as the schools, hospitals and universities do now, through a network of nonprofit or public organizations. The funding would come, as with schools, hospitals and universities, from taxpayers and consumers.*
6. *In the next few years, as this policy becomes established, the Province of Ontario should, and the City of Toronto should encourage the Province to, pay special attention to monitoring and controlling the issue of new child care licenses and the transfers of existing licences, so that large for-profit child care chains are not able to get established in this province, and so its policy flexibility under NAFTA is maintained.*
7. *The City of Toronto should encourage the Province of Ontario to favour conditional supply-side funding over unconditional demand-side funding in its efforts to develop the child care system in Ontario. Supply-side funding (directly to programs) confers greater ability to compel regular reporting, monitor performance and encourage the provision of higher quality programs.*
8. *Because of the difficulties nonprofit programs have in gaining access to capital for expansion and new development, the City of Toronto should regularize the capital and development assistance to new nonprofit centres that they currently provide on an irregular basis. Further, the City should encourage the Province of Ontario to mandate (and financially support) Service System Managers to develop capital assistance programs to encourage the development of nonprofit child care services across the province. Nonprofit centres need assistance with access to capital on favourable terms; assistance with forecasting and planning activities necessary at the early stages of setting up child care. These type of supportive programs for nonprofit agencies are particularly important when governments are under pressure to increase child care supply rapidly. It is precisely at these times that for-profit child care can develop rapidly, making use of generous public funding, while nonprofits are slower off the mark*
9. *Further, the Province of Ontario should mandate (and financially support) Service System Managers to make provision for ongoing management and operating advice and*

assistance, especially to independent nonprofit centres. This recommendation responds to the weaknesses that independent nonprofit operators have in setting up, managing, and operating efficient, high quality, parent- and child-friendly services; assistance with human resource, benefit and compensation planning and negotiation; assistance with developing and mounting professional development programs; assistance with joint purchasing, program and curriculum planning, record-keeping and other activities that lower costs of operation and improve efficient management of high quality nonprofit child care services. It may be efficient to have this ongoing management and operating assistance provided through a sector-based arm's length agency.

10. *Classrooms in municipal centres are virtually always of higher quality than in other centres. More analysis of the determinants and costs of higher quality care in municipal centres is warranted. In the meantime, the City of Toronto should remain strongly committed to maintaining these centres and preserving their important role of providing high quality education and care services, particularly for subsidized children.*

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Appendix A

Aspects of Quality Measured by the City of Toronto Operating Criteria, 2007

INFANT

A high quality infant program

- provides an inclusive program that respects the individual infants' abilities, needs and strengths
- fosters the infants' sense of trust by ensuring that individual needs are met immediately by warm and caring adults
- offers experiences that appeal to the infants' senses and contribute to their overall growth and development
- provides a language rich environment that encourages communication through positive interactions

Infant Operating Criteria Assessment includes:

Structure of the Day: The child care program posts a daily and visual schedule that indicates a balance between structure and flexibility. Schedules include plans to meet the individual needs of children and ensure that all children are able to participate in the program.

Activities and Experiences Planned: Staff determine the needs of each child so they can develop goals and objectives for each planned activity. Developmental reviews and observations are completed for each infant and developmental milestones are recorded.

Physical Environment: The environment is designed to promote participation, peer interaction and independent use by children. There are a variety of developmentally appropriate and diverse toys and materials, which are in good condition and complete, available to the children at all times during the day. Children have the opportunity to combine toys and materials to create their own experiences.

Learning: The play area is open and accessible to infants throughout the day. Learning occurs through planned activities and play with developmentally appropriate toys and materials for art/sensory, books/language, music, dramatic play, blocks and physical activities indoor and outside.

Physical Needs: Time to meet children's physical needs are planned so that an individual infant's needs and schedules are respected and their independence is fostered eg. mealtime, diapering, sleep times and exceptional accommodations such as g-tube feeding, positioning etc.

Health and Safety: All areas of the program are free of hazards, kept in good and safe repair and maintained in a hygienic and orderly condition. Toys and equipment are washed and sanitized appropriately. Staff and children wash their hands before eating, serving food, after diapering and wiping noses. Child safety also includes safe transitions and ongoing attendance verification throughout the day.

Interactions: Staff are competent in their interactions with all children, including creating a positive atmosphere, providing appropriate supervision and behaviour guidance, fostering independence and self-esteem, supporting the development of language and communication skills and extending children's learning.

Toddlers

TODDLER**A high quality toddler program:**

- provides an inclusive program that respects individual abilities, needs and strengths
- provides a language rich environment that encourages communication through positive interactions
- provides the children with a rich, interesting environment that they can explore with all their senses
- encourages the children's feeling of competence by giving them opportunities to experiment and problem solve
- fosters a sense of autonomy by ensuring flexibility and choice
- develops the children's self esteem by ensuring that they feel valued and cared for as individuals
- encourages the development of positive social skills

Toddler Operating Criteria Assessment includes:

Structure of the Day: The child care program posts a daily and visual schedule that indicates a balance between structure and flexibility. Schedules include plans to meet the individual needs of children and ensure that all children are able to participate in the program.

Activities and Experiences Planned: Staff determine the needs of each child so they can develop goals and objectives for each planned activity. Developmental reviews and observations are completed for each Toddler and developmental milestones are recorded.

Physical Environment: The environment is designed to promote participation, peer interaction and independent use by children. There are a variety of developmentally appropriate and diverse toys and materials, which are in good condition and complete, available to the children at all times during the day. Children have the opportunity to combine toys and materials from different learning areas to create their own experiences.

Learning: The play area is arranged into clearly defined areas that are open and accessible throughout the day and promote the full participation of all children. Learning occurs through planned activities and play with toys and materials for art/sensory, books/language, music, dramatic play, construction/block, cognitive/manipulative and physical activities indoor and outside.

Physical Needs: Time to meet children's physical needs are planned so that individual child needs and schedules are respected and a child's independence is fostered eg. Mealtime, diapering/toileting, sleep times and exceptional accommodations such as g-tube feeding, positioning etc.

Health and Safety: All areas of the program are free of hazards, kept in good and safe repair and maintained in a hygienic and orderly condition. Toys and equipment are washed and sanitized appropriately. Staff and children wash their hands before eating, serving food, after diapering/toileting and wiping noses. Child safety also includes safe transitions and ongoing attendance verification throughout the day.

Interactions: Staff are competent in their interactions with all children, including creating a positive atmosphere, providing appropriate supervision and behaviour guidance, fostering independence and self-esteem, supporting the development of language and communication skills and extending children's learning.

Preschool

PRECHOOL**A high quality preschool program:**

- provides an inclusive program that respects individual abilities, needs and strengths
- provides a language rich environment that encourages communication through positive interactions
- provides the children with a rich, interesting environment that they can explore with all their senses
- encourages the children's feeling of competence by giving them opportunities to experiment and problem solve
- fosters a sense of autonomy by ensuring flexibility and choice
- develops the children's self esteem by ensuring that they feel valued and cared for as individuals
- encourages the development of positive social skills

Preschool Operating Criteria Assessment includes:

Structure of the Day: The child care program posts a daily and visual schedule that indicates a balance between structure and flexibility. Schedules include plans to meet the individual needs of children and ensure that all children are able to participate in the program.

Activities and Experiences Planned: Staff determine the needs of each child so they can develop goals and objectives for each planned activity. Developmental reviews and observations are considered when planning.

Physical Environment: The environment is designed to promote participation, peer interaction and independent use by children. There are a variety of developmentally appropriate and diverse toys and materials, which are in good condition and complete, available to the children at all times during the day. Children have the opportunity to combine toys and materials from different learning areas to create their own experiences.

Learning: The play area is arranged into clearly defined areas that are open and accessible throughout the day and promote the full participation of all children. Learning occurs through planned activities and play with toys and materials for art/sensory, books/language, music, dramatic play, construction/block, cognitive/manipulative and physical activities indoor and outside.

Physical Needs: Time to meet children's physical needs are planned so that individual child needs and schedules are respected and a child's independence is fostered eg. Mealtime, toileting, sleep times and exceptional accommodations such as g-tube feeding, positioning etc.

Health and Safety: All areas of the program are free of hazards, kept in good and safe repair and maintained in a hygienic and orderly condition. Toys and equipment are washed and sanitized appropriately. Staff and children wash their hands before eating, serving food, after toileting and wiping noses. Child safety also includes safe transitions and ongoing attendance verification throughout the day.

Interactions: Staff are competent in their interactions with all children, including creating a positive atmosphere, providing appropriate supervision and behaviour guidance, fostering independence and self-esteem, supporting the development of language and communication skills and extending children's learning.

Schoolage

SCHOOL AGE**A high quality school age program:**

- provides an inclusive program that respects individual abilities, needs and strengths
- provides a language rich environment that encourages communication through positive interactions
- develops the children's self esteem by ensuring that they feel valued and cared for as individuals
- fosters a sense of autonomy by ensuring flexibility and choice
- provides a supportive environment in which children can develop their skills, talents and interests

School Age Operating Criteria Assessment includes:

Structure of the Day: The program posts a daily and visual schedule that indicates a balance between structure and flexibility. Schedules include plans to meet the individual needs of children and ensure that all children are able to participate in the program.

Activities and Experiences Planned: Staff determines the needs of each child so they can develop goals and objectives for each planned activity. Developmental reviews and observations are considered when planning.

Physical Environment: The environment is designed to promote participation, peer interaction and independent use by children. There are a variety of developmentally appropriate and diverse toys and materials, which are in good condition and complete, available to the children at all times during the day. Children have the opportunity to combine toys and materials from different learning areas to create their own experiences.

Learning: The play area is arranged into clearly defined areas that are open and accessible throughout the day and promote the full participation of all children. Learning occurs through planned activities and play with toys and materials for art/sensory, books/language, music, dramatic play, construction/block, cognitive/manipulative and physical activities indoor and outside.

Physical Needs: Time to meet children's physical needs are planned so that individual child needs and schedules are respected and a child's independence is fostered e.g., Mealtime, toileting and exceptional accommodations such as g-tube feeding, positioning etc.

Health and Safety: All areas of the program are free of hazards, kept in good and safe repair and maintained in a hygienic and orderly condition. Toys and equipment are washed and sanitized appropriately. Staff and children wash their hands before eating, serving food, after toileting and wiping noses. Child safety also includes safe transitions and ongoing attendance verification throughout the day.

Interactions: Staff are competent in their interactions with all children, including creating a positive atmosphere, providing appropriate supervision and behaviour guidance, fostering independence and self-esteem, supporting the development of language and communication skills and extending children's learning.

Other Assessed Criteria

There are other aspects of centre performance assessed by the Operating Criteria that are listed below. At this stage of our analysis, because we wish to focus on the part of the child care experience that is agegroup-specific, we do not average these aspects into our global quality measure.

PLAYGROUND

Playgrounds are designed and/or arranged to accommodate a variety of developmentally appropriate activities including active play (running, biking, climbing) quiet play (sandbox, painting, reading), dramatic play and individual or small group activities. Outdoor program plans are seasonally adjusted and provide appropriate activities and equipment for the season.

NUTRITION

Children are offered food in proportion with the amount of time they spend in care and in accordance with the Day Nurseries Act. A child in care for six hours or longer is offered food throughout the day. Menu's are planned and include food substitutions and accommodations. Food is always prepared and handled in a sanitary manner.

ADMINISTRATION

Administration of a child care program outlines the policies and procedures that direct the everyday functioning and culture of the child care program. This includes ensuring adequate qualified staff are on duty throughout the day and that parents have access to program information and their involvement is encouraged.

FINANCIAL MANAGEMENT

Sound financial management and practices are an essential component of quality child care. This includes providing reliable accurate financial information on which to base organizational decisions, produce accounting records, prepare financial statements and budgets.

WORKING TOGETHER

Designed to meet the early learning and care needs of children by bringing child and family services together into a collaborative system that is conveniently located and easier for families to use.