

# CHILD CARE FUNDING MODEL

## FACT SHEET: Setting Child Care Fees

***The purpose of this fact sheet is to explain to operators and families what a “reasonable child care fee” is and what goes into determining it.***

***The City has historically provided funding to child care operators with funding agreements to help offset their operating costs. Primarily this has been done by providing salary grants to operators to support their staffing costs. Offsetting the operating costs of a centre is beneficial for families as well as operators, as it allows centres to set lower child care fees that are often below the cost of providing the service.***

***Toronto's new Child Care Funding Model continues to offset operating costs for centres by providing funding to operators through a new General Operating Grant (GOG). By offsetting operating costs, the new Funding Model provides opportunities to improve compensation for child care workers in the sector and to improve affordability for families. Child care fees should be “reasonable” by reflecting the cost of providing quality child care while also recognizing the need for appropriate compensation for professional child care workers.***

### DEFINITIONS

***Child care fee:*** The fee for a child care service set by the operator that is charged to families. Also referred to as "public fee" in a fee memo.

***Cost of care:*** A child care operator's current costs by an age category to provide a space in their child care program.

***Reasonable fee:*** A reasonable fee is one that reflects the actual cost of care.

***Vacancy rate:*** The rate at which a centre is fully operational is indicated by the actual enrolment compared to the planned operating capacity.

***Approved cost:*** The amounts submitted to Children's Services through the budget process that are considered eligible expenses under the City's *Operator Budget Guidelines*.

***Per Diem*** A per diem is a per day amount that Children's Services pays to an operator to fund a child in a subsidized child care space.

## WHAT IS A REASONABLE FEE?

*A reasonable fee reflects the actual cost of care for an age group. Grant funding, such as the General Operating Grant is intended to assist in lowering the fee to families, by offsetting costs. A reasonable fee structure may improve access to services, is fair for families and helps promote a stable, viable child care program. However, even when fees are reasonable they may still not be affordable for families.*

Ensuring reasonable child care fees is an important way to balance having appropriate salary levels with providing fair fees for families. The key is to set fees that aren't unreasonably low or unreasonably high.

Although unreasonably low child care fees may be welcomed by families, they can have negative consequences for child care centres.

### **Unreasonably low child care fees** can:

- contribute to low salaries, which in turn, can lead to difficulties with staff recruitment and retention and may compromise quality
- make a child care centre vulnerable to deficit budgets making the centre financially unstable,
- prevent a centre from accumulating surplus funds. Little to no surplus funds can leave a centre in a situation where it is unable to deal with sudden, unforeseen expenses and can reduce their ability to respond to necessary transitions and changes.

### **Unreasonably high child care fees** can:

- prevent families from accessing care. Child care fees can be a significant financial challenge for families.
- Setting a fee that is higher than the cost of care may place a child care centre out of reach for many families. This can lead to a higher vacancy rate and, greater financial instability or unfairly provide access to only higher-income families.

**A reasonable fee structure** is fair to families and, most importantly, helps an operator more accurately forecast their revenue to ensure a stable, viable program.

## WHAT ARE FACTORS IN DETERMINING CHILD CARE FEES?

*Child care fees vary across centres due to a number of factors, including differences in:*

- costs for salaries and occupancy;
- the vacancy rate;
- the method of determining the fee structure;
- the extent of cross-subsidization;
- the amount of grant funding or other revenue; and
- local market forces of supply and demand

**Centre costs.** Every centre has different costs to support its operations. For example, some centres have occupancy costs while others do not. The costs that have the most significant influences on fees are the salaries and benefits paid to staff. The vacancy rate, or the rate at which spaces are not filled, can also have a significant impact on the cost of service.

**Cross-subsidization.** Cross-subsidization is when fees do not reflect the cost of care for the service received; instead, the fees of one service is used to offset the cost of another service. Typically, cross-subsidization occurs when parents of older children are charged a fee that is higher than the cost of care to help cover the cost of care for younger children.

A reasonable fee for an age group ideally covers the cost of its own operations. Cross-subsidization can lead to instability if, for example, the centre's age group configuration changes.

## REASONABLE CHILD CARE FEES AND THE PER DIEM

### WHAT IS A PER DIEM?

*A per diem is a per day amount that Children's Services pays to an operator to fund a child in a subsidized child care space.*

*How the centre sets their child care fee is an important determinant of the amount a centre is paid for subsidized spaces.*

### HOW IS A PER DIEM CALCULATED?

*Each year operators develop a budget to reflect their projected revenue and expenses based on the centre's capacity and operations. The budget is submitted to Children's Services for analysis which confirms approved costs in accordance with the City's Operator Budget Guidelines.*

The per diem is based on a formula that compares the total of the approved costs to the amount of revenue generated by child care fees, (assuming a 98% enrolment rate), if the program is operating efficiently. The calculation includes:

- the child care fees
- the number of operating days
- the number of children enrolled in care and,
- the approved costs

As a rule, Children's Services will not pay a per diem higher than the operator's child care fees charged to the public.

### THE PER DIEM COMPARED TO THE CHILD CARE FEE

Sometimes the calculated per diem amount is lower than the child care fees that the centre charges to the public. This can occur if operators have costs that are above the limits that are allowable in the Operator Budget Guidelines or if their child care fees are higher than their cost of care. If the per diem is lower than an operator's actual costs, the operator will need an additional revenue source to cover their full expenses.

Submitting a good budget that is within the Operator Budget Guidelines and reflects the cost of care, and setting public fees that are reasonable will help operators to forecast the per diem amount that will be approved.

### PER DIEM INCREASES

Operator budgets are reviewed annually to confirm an operator's costs. Per diems are adjusted accordingly and based on available funding in the child care system.

If the demand for funding is greater than the available funding in a given year, increases to per diems may be limited. This situation could also result in a per diem amount that is less than the child care fee charged to the public.

Generally, budgets should include all operating costs including projected cost of living increases.