

THE ISSUE OF “AUSPICE”

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Child Care Advocacy Association of Canada

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(Auspice – commonly used in Canada to denote financial and administrative operating structure.)

Why is auspice an issue in child care?

Over the past twenty years public funding has been provided by the provinces to child care services to assist with operating costs. This has been done in a somewhat ad hoc manner and usually in response to an identified crisis rather than through the development and implementation of comprehensive public policy. Some provinces and territories restrict this financial support to a particular “auspice”, the not-for profit sector. Most non-government groups support this position. In fact, many believe that the future direction for public policy should be to explicitly direct public funding to support and encourage the development of high quality, accessible and affordable not –for-profit child care services.

In Child Care and Development, a supplementary paper to the Social Security Reform Discussion Paper released by the Minister of Human Resource Development (Fall 1994) auspice is identified as a contextual factor with respect to the predictors of quality care. The paper states:

Quality care is more likely to be found when there are:

- adequate levels of consistent funding
- reasonable levels of regulation...and
- when the program is operated by a non profit organization

This statement, which is supported by a substantial body of knowledge, ensures that the issue of “auspice” will continue to be key in discussions about the appropriate components of the policy framework for child care in Canada. These discussions will be passionate and there will be considerable potential for confrontation to be based on misconception. The purpose of this paper is to put the issue of “auspice” into context.

First, what is child care: a commodity or a public good?

In Canada, public opinion is currently resting somewhere between these two options and as a result public policy rests in an uneasy place.

If child care is viewed strictly as a commodity it would be handled solely through the market approach; to be purchased at a going rate, with government intervention limited to regulation. Cost and quality would be driven by how much the consumer is willing or able to pay. Those able to pay for the best possible product for their children would be most likely to be able to access quality. Others with less purchasing power would have to settle for either an inferior product or for no service

at all. Should social services which affect the health, safety, social , emotional and cognitive development of children be treated as commodities?

At the other end of the spectrum is the “public good” approach which assumes that the service is for the good of society as a whole. As such, the development of the service should be based on principles, goals and objectives and be supported by direct public funding. Quality, availability and equity of access are critical outcomes of such services because the alternatives negatively impact the socio-economic costs to the public purse and are contrary to the public good. If child care is considered within the context of “public good” it would be treated in much the same way as education and health care, with substantial public funding directed at the not-for-profit sector.

In Canada, public policy currently rests somewhere in the middle of the spectrum between these two approaches. It is clear that the “going rate” that consumers are able or willing to pay for most child care services will not achieve the critical outcome – quality care for children. In many cases the “going rate” does not even cover basic operating expenses. Intervention in the “market place” is required. Governments, recognizing that child care is in the public interest (if not a public good), have been tampering with the market approach for a long time through the provision of subsidies to assist low income families with their child care costs and through various forms of operating support to services. They have been doing this without dealing openly with the issue of auspice, its affect on quality and the issue of accountability for public expenditure.

Who provides child care in Canada?

At the same time as there has been an incremental shift toward child care as a “public good” there has been a shift in the way child care is operated in Canada.¹ In 1968, 75% of Canadian child care centres were identified as being commercially operated² Many of these programs were owned and operated by women, some with training in early childhood education, who chose to develop child care programs because of personal commitment to the field: often these owners made no “profit”. Indeed, they may have supported the program through their own low wages or through the

¹ Although in many parts of Canada regulated family day care is considered to be within the commercial sector, the comments in this section of the paper pertain solely to centre based care. CCAAC supports the inclusion of regulated family day care in a publicly funded child care system, the parameters of which are addressed later.

² “Commercial” is one of the terms used to denote this type of business structure. Synonyms include “private”, “independent” and “for-profit”.

commitment of personal resources. At the same time, entrepreneurs, whose primary interest was in operating child care as a business, established child care services in the parts of Canada where regulation (or the lack thereof) allowed good profit margins. However different these two types of providers may be they are both outside the operational concept of not-for-profit service delivery, as described later.

Today, according to the Status of Day Care in Canada, 1993³ the commercial sector constitutes 30.46% of the total number of centres. Some believe that commercial interest is waning due to the diminished profitability of child care, a result of the changing circumstances of family income. Some claim that this reversal is due to government intervention in the market. Others blame it on the effect of regulation on profitability. Still others believe that the predominance of not-for-profit is the result of a philosophical shift' the recognition by parents, providers and society that child care should be delivered as a public good. This paper chooses not to support or condemn any of those positions. Instead it proposes that different ways of doing business require different public policy approaches.

What are the differences between commercial and not-for-profit child care?

There are fundamental legal and fiscal differences in the way a commercial business and a non-profit organization operate. For example, with respect to non-profit organizations the governing legislation is under the jurisdiction of the provinces/territories and differs somewhat from one region of the country to another. However, the basic intent is the same.

Since there is no generic "Canadian" example of operating conditions British Columbia will be used to illustrate the differences between the two sectors. This province has been chosen because it has experienced limited intervention in the market place and as a result comes the closest to "a level playing field".

In British Columbia, as in the rest of Canada, each "auspice" has unique operational advantages and disadvantages. Organizational structure defines the context within which decisions are made and therefore each "auspice" makes decisions from a different perspective.

Commercial services:

A private business is set up to legitimately earn a financial gain for its owners through sale of goods and/or services. Private child care can range from a single owner offering a service for three or more children in her own home (family daycare) to large corporate chains. Private start up does not necessarily require formal *business* registration or incorporation with provincial government bodies. (All child care providers, regardless of auspice must comply with provincial child care regulation and a business license is often required by local government.) Private organizations make financial reports confidentially to specific entities such as Revenue Canada, the bank and so on. A private

³ Human Resource Development Canada (1994). Status of Day Care in Canada. Ottawa.

business is not bound by the conflict of interest guidelines that are set out in the act governing Societies. The decisions made in private business are therefore often not accessible to public scrutiny.

From the financial perspective an owner may realize a personal gain on the sale of business assets, which could include real estate, equipment and good will. In addition, to stimulate free enterprise, Canadian tax laws offer advantages to business owners in areas such as expense deductions and tax deferrals. This list of advantages to the commercial sector may not be exhaustive. It is presented here only for comparison purposes. (It should be noted here that due to business naivety some small commercial child care providers may not be aware of all of the advantages of their form of operation.)

Non-profit Organizations:

A non-profit organization is set up as an association or group of people who have come together for some common purpose. Legally constituted under provincial law non-profit organizations serve a public purpose and may not operate for financial gain. They must go through a process of society formation, board recruitment and registration with the Registrar of Companies. Child care services operated by non-profit societies range from small in size, stand alone programs often managed by a volunteer board of parents, to multi-site, multi-age programs such as those that are operated by multi-service agencies such as the YMCA. Non-profit societies must maintain records of all decisions, hold annual general meetings, report annually to the Registrar and provide financial statements. They are bound by the conflict of interest guidelines set out in the societies Act. In other words they are legally bound to be open to public scrutiny.

From the financial perspective non-profit societies must submit annual financial statements and complete a Non-Profit Organization return for Revenue Canada. They may only claim 50% of GST paid, and then only if they are registered federal charities, or meet certain criteria. Non-profits rarely have access to bank financing (especially small societies) whereas owners can “leverage” their assets through financing. Members of a Board of Directors are precluded from receiving financial reward for the operation of the society and on dissolution remaining funds and assets must be transferred to another organization with a similar purpose or as directed by the Act. If registered as a charity non-profit organizations have access to a variety of fundraising opportunities through which to supplement revenue.

Equity Issues:

There is a perceived sense by the commercial sector, of an uneven playing field. It is believed that in many parts of Canada the non-profit sector has advantages that the commercial sector doesn't have due to provincial funding policies. The fiscal advantages of operating child care as a commercial business are rarely mentioned. However, let British Columbia again be the example. As noted earlier, although there has been considerable positive attention paid to child care over the past three years this province has the shortest history, in Canadian terms, of “intrusion” into the market place.

From the public funding perspective, in British Columbia both sectors may accept subsidized children and may have contracts for services to children who have special needs. The private sector was “grandparented” into the only operating funding and both sectors may apply for the Wage Supplement Initiative. The only significant difference between sectors, with respect to public funding is that the government does not provide capital for the development or maintenance of commercial child care facilities. The reason for this is obviously one of ownership. (Note: the only maintenance funding for which the non-profit sector may apply is a \$5000 emergency grant.)

In the community context, there is a perception that non-profit organizations get the use of low rent community based facilities, yet in British Columbia this cannot be substantiated. Both sectors sometimes “luck out” and find a sympathetic or supportive landlord but both sectors are most often expected to pay rent at the going rate. In fact, it is understood that only 18% of all facilities in British Columbia had some subsidization of their rent in 1993.

It should be noted that under the market approach, which is the basis of the B.C. system, services (whether they are operating as a business or as a non-profit society) can, and do in the majority of cases, charge a similar “going rate” or fee to parents. However, it has been clearly documented that wages and benefits are poorer for those employed in the private sector. Caring for a Living⁴, the Canadian study on wages and working conditions, found that in B.C. while in non-profit centres 73.9% of the budget was devoted to staff wages only 58% of the budget in commercial centres was similarly devoted. The study also found that staff in B.C. non-profit centres were offered 76% more of the listed benefits that their counterparts in the commercial sector. (Staff remuneration is a factor known to impact the quality of care children receive.)

When the playing field is so nearly level it is difficult to rationalize these inequities on anything but the business choices made by the commercial operators. It is also difficult to rationalize subsidizing the choices that are made by the commercial sector with public funding to ensure fairness and equity for their employees. It is important to note that these inequity-making decisions are not necessarily made through the profit motive alone. As noted above, many commercial operators establish their child care services out of good will and a desire to supply a community need, not because they are skilled entrepreneurs. They may not even understand the opportunities that the different operating structures offer. The government has a responsibility to those who choose to provide child care independently to ensure that they understand the parameters of their choice, the need for a sound business plan and that if their business fails it is not the responsibility of the state.

On the other side of the coin, there is a perceived sense of collective accountability in the operation of a non-profit organization and yet they too are subject to making poor business decisions due to similar reasons; sometimes an inexperienced volunteer board of directors and in other case, decision based on the competing priorities within multi-service agencies.

⁴ Schom-Mofatt, P (1992). *Caring for a Living*.

There are, however, by virtue of their operating structure a variety of vehicles through which to ensure public accountability for both the quality of care provided and the public funds expended.

In conclusion, it is clear that there are real differences in the operating and administrative structure of commercial and not-for-profit child care services. These differences were there prior to public intervention in the market place. Substantial and consistent research supports the proposition that these differences (or auspice) is one important contextual factor which has an impact on the quality of child care programs.

What's next?

For providers in general:

The recognition of child care as a “public good” determines that the future policy framework for childcare in Canada should direct funding to support and encourage the development of not-for profit child care services. Advocates for this approach are not proposing to shut down commercial child care nor to withdraw existing funding. Rather this approach relates to the public policy around the use of *new* public funds. To operate child care as a business is a right (within the regulatory framework). To be supported by public funds to do so, is not. New child care providers need to decide whether they wish to maintain their independence and the benefits that it provides or whether they are more interested in providing a not-for-profit service within the context of the “public good”.

For family daycare providers:

Provincial/territorial public policy on family daycare is diverse. For example, in some regions the providers are individually licensed, independent and, from the perspective of “auspice”, viewed as part of the commercial sector. In others the sector is regulated through non-profit agencies and providers connected to these agencies are viewed as part of the non-profit sector. The Child Care Advocacy Association of Canada believes that family daycare is a major and vital component within the continuum of child care services. Policy should be developed to support this sector with public funding. However, this should be done within the context of non-profit delivery of services and will require the development of measures to ensure public accountability for the expenditure. The family daycare sector should be consulted about how this can best be done.

For government:

Each province/territory's situation in relation to child care auspice is different. Policies, philosophies and the proportions of non-profit/commercial child care vary considerably. The philosophies and the proportions of non-profit/commercial child care vary considerably. The nature of the sectors themselves varies as well. In some provinces, “commercial” operations are relatively comparable to non-profit based operations. In others, the two sectors are run by immensely different kinds of operational strategies, budget considerations and concepts of quality. Various strategies have been implemented to recognize the contribution made by the commercial sector while directing funding toward the goal of a not-for-profit child care system of service delivery. Some provinces

have “grandparented” existing commercial services thus permitting new funds to flow to the non-profit sector and the “grandparented” commercial sector. Others have introduced funding programs to assist those commercial operators who wish to access public funding to convert to non-profit status.

The federal government must establish not-for-profit administration of child care services as a clear goal of the child care policy framework for Canada, while recognizing the regional disparity which exists with respect to auspice. Through the development of bilateral agreements, targets and timetables can be negotiated with each province/territory which move all regions of Canada toward this goal. This can be done in a manner that does not destabilize the regional delivery of services for children but moves us toward the paramount goal of equity of access to quality care for the children of Canada.