



# **Alberta Cost Control Framework and For-Profit Expansion Plan**

Alberta Cost Control Framework and For-Profit Expansion Plan | Children's Services

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# Alberta Cost Control Framework and For-Profit Expansion Plan

## Introduction

On November 14, 2021, Alberta and Canada signed the Canada-Alberta Canada-wide Early Learning and Child Care Agreement (the "Agreement") providing an estimated \$3.8 billion to support high quality, affordable and inclusive licensed child care in Alberta over the next five years. The Agreement recognizes that Alberta has a unique system in which not-for-profit, public and private/for-profit operators play an important role in the delivery of high-quality regulated child care programs and services Albertans value.

Alberta's mixed market of child care providers includes both private and non-profit operators of various sizes and complexity. Canada and Alberta agreed to promote, define, and deliver innovative approaches through Alberta's mixed model system to enhance the quality, accessibility, affordability, flexibility, and inclusivity of Early Learning and Child Care systems, with consideration for those more in need (Section 2.2.4)\*.

As part of the Agreement, Canada and Alberta agreed to establish an Implementation Committee for the purposes of monitoring progress towards achieving an average of \$10 a day child care, and to discuss and exchange on issues related to the Agreement. The Agreement states that *"By December 31, 2022, the Implementation Committee will develop and propose a for-profit expansion plan for the development of new child care spaces in for-profit child care providers from 2023-2024 to 2025-2026, for agreement by Alberta and Canada with such approval not to be unreasonably withheld. The Implementation Committee described under Section 6.2 will also develop a cost control framework to ensure the sound and reasonable use of public funds, ensuring that costs and earnings of child care businesses are reasonable and that surplus earnings beyond reasonable earnings are directed towards improving child care services."*

## Principles

Principles for the Cost Control Framework are identified in the Agreement (Section 6.3) as follows:

- Builds upon Alberta's existing successful approach to working with the private sector to increase spaces and quality;
- Factors in and considers the wide variation in size of operators that make up the private sector; and
- Does not result in unnecessary barriers to growth, innovation and creativity in creating spaces.

Providers may generate a profit, but the surplus earnings, or other resources, are to be directed towards improving child care services rather than for the personal benefit of owners, members, investors, or to enhance asset growth (Section 2.2.1 b).

## Objectives

The cost control framework will guide the sound and reasonable use of public funds within the Agreement by:

- Ensuring accountability and directed use of funds while still supporting parent choice for additional child care services
- Maintaining rigor around licensing requirements and financial practices
- Reducing potential exposure to fee and cost escalation for parents and governments

Upon mutual agreement of the cost control framework, up to an additional 22,500 private spaces will be eligible under the Agreement.

The Framework aligns with the principles of accessibility, quality, affordability and inclusivity and Alberta's *Early Learning and Child Care Act* and associated regulations, which outline the principles and matters to be considered by operators of licensed child care programs.

## Application

The cost control framework applies equally to private and not-for-profit operators.

## Elements

Alberta's cost control framework centres around Alberta's Cost Control Funding Formula and provides guidance on the various elements of the formula to establish the parameters for a reasonable profit or surplus and the sound and reasonable use of public funds. By design, total government funding plus parent fees approximates the cost of delivering core child care services.

## Revenue

The determination of a typical cost per space for core child care costs will inform total government funding to operators, and in tandem with parent fees as determined by Alberta, will fully define and set the total core child care revenue of an operator.

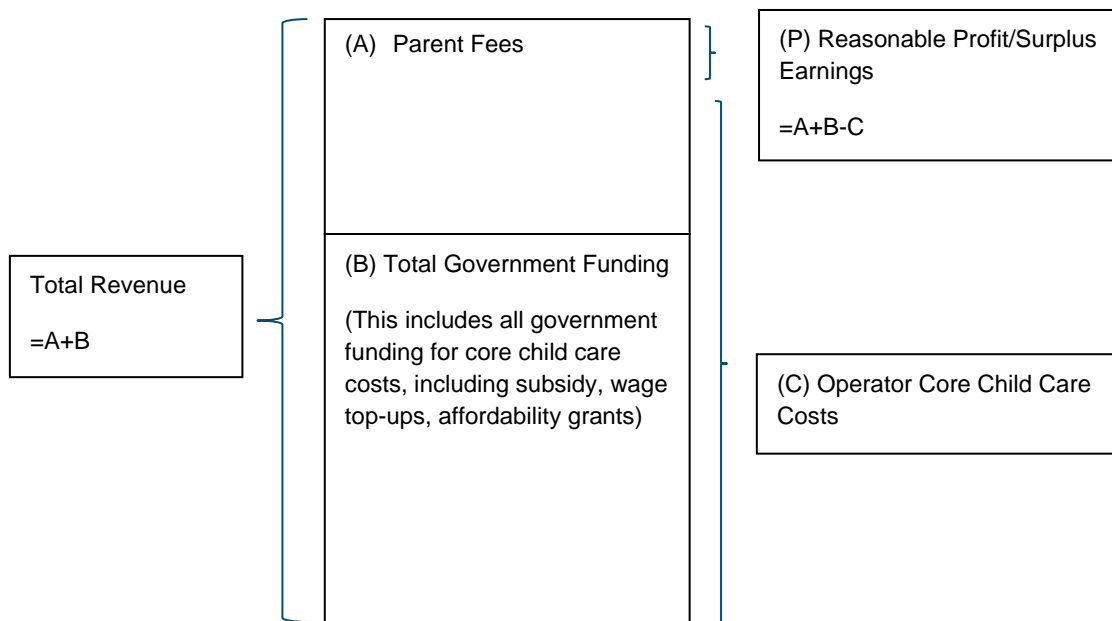
## Core Child Care Costs and Operator Expenses

Eligible core child care costs are defined by Alberta as a typical cost per space and include appropriate variations (e.g. regional factors). Total core child care expenses are variable based on independent choices of operators within the eligible core child care costs and Alberta's legislated parameters. The total core child care costs will be built based on the sum of reasonable costs for each of a list of core child care elements taking into account variation and modifiers where deemed necessary.

## Reasonable Profit or Surplus

Reasonable profit and surplus is a result of the total revenue as set by Alberta and the independent expense choices of operators within Alberta's definition of core child care costs. Reasonable profit and surplus can be achieved by operators through efficiency while maintaining quality and the provision of enhanced child care services.

## Alberta's Cost Control Funding Formula:



### Definitions and main features of the funding formula

**A: Parent Fees:** Determined by Alberta to achieve an average of \$15/day 2023-2025 and \$10/day 2025-26. Adherence to A is required to receive B

**Limit on Fees:** Average \$15/day in 2023-24 and 2024-25, Average \$10/day in 2025-26.

**B: Total Government Funding:** Determined by Alberta from a cost per space analysis and will closely approximate  $(C - A)$  (This includes all government funding for core child care costs, including subsidy, wage top-ups, affordability grants)

**C: Operator Core Child Care Costs:** Defined by Alberta as required to provide core child care services.

**Total Core Child Care Revenue:**  $(A + B)$ , which is fully defined and set by the Alberta government.

**Reasonable Surplus/Profit Surplus Earnings:**  $(A + B - C)$  and is controlled, limited, and capped through funding model and verified through existing financial reporting and policy measures.

**Sound and Reasonable Use of Public Funds:** Funds provided through Total Government Funding (B), are conditional on adhering to (A), and are utilized to provide core child care services, as defined by Alberta.

## **Parent Fees (A)**

Parent fees (A) will be fully defined and set by the Alberta government. Adherence to the defined fee will be required to ensure continued eligibility for total government funding (B). Parent fees will be determined as follows:

1. Average \$15/day in 2023-24 and 2024-25
2. Average \$10/day in 2025-26

Adherence to this fee will be monitored by Alberta's financial and regulatory reporting requirements to prevent fee increases to parents and to ensure continued eligibility of private operators under the Agreement for total government funding (B). Operators are responsible to set and report fees within standards as determined by Alberta.

## **Core Child Care Costs (C)**

Core child care costs (C) represent the typical cost per space needed to ensure high quality child care as defined under the *Early Learning and Child Care Act*, associated regulations, and standards. These core child care costs will be fully defined by Alberta within the categories of human resource, administrative, programming, operational and facility costs. Eligible expenses within the categories may include rent, lease or mortgage payments, wages, utilities, property taxes, and other necessary costs defined through legislated parameters around licensing health and safety requirements and/or as determined between operators and the province. To maintain quality and standards, core child care costs also include regulated parameters around staff qualifications, staffing ratios, space ratios, program plans and other regulatory requirements.

Core child care costs will be determined as the sum of reasonable eligible expenses within the categories with appropriate regional and market variations. These core child care costs will be aligned with the mutual goals of accessibility, quality, affordability, and inclusivity.

The core child care costs will be determined based on available market data and reviewed annually, or as deemed necessary, to ensure core child care costs closely reflect actual costs with regional and market variations.

The determination of the core child care costs will inform Alberta's total government funding (B). Alberta's total government funding will closely approximate anticipated costs for core child care (C) within determined regional and market variations using its cost per space model minus parent fees (A).

## **Operator Core Child Care Expenses**

In order to be eligible for total government funding (B) in support of the objectives of the Agreement, operators must agree to expenditures (C) that are within the eligible definition of core child care costs and within Alberta's legislated requirements.

All licensed child care programs in Alberta are required to adhere to specific requirements under the *Early Learning and Child Care Act* and associated regulations, which include parameters around staff qualifications, staffing ratios, space ratios, program plans, etc.

Adherence to the requirements of the *Early Learning and Child Care Act*, regulations and other Alberta policies and standards will ensure quality is maintained within child care programs.

## **Enhanced Services**

Enhanced child care costs are outside the scope of the Agreement and may include additional parent fees. These could include transportation, field trips, special programming or other additional costs that support innovation and creativity within the child care program. In addition, additional fees related to non-compliance of parents to program parameters, such as late pick-up fees or late payment fees are outside the scope of the Agreement, but are not considered enhanced services.

No enhanced service fees are permitted to be charged to parents for core child care services as defined by Alberta.

Enhanced services may be provided at an additional fee to parents for services not deemed essential to the delivery of core child care. All enhanced services are required to be optional and cannot limit a child's access to affordable child care at any time nor create preferential access to a child whose parent may pay for enhanced services. Guidelines will ensure that parents have the ability to opt-out of enhanced services and any associated fees without fear of negative impact on their access to core child care services.

The enhanced services guidelines must be adhered to by the operator in order to remain eligible for total government funding. Regular and compliant-driven inspections by licensing officers and reporting processes will be in place to ensure compliance. All enhanced fees must be disclosed as a requirement of the grant agreement.

### **Reasonable Profit or Surplus**

Reasonable profit and surplus can be achieved through creating efficiencies in core child care costs and offering additional enhanced services. It is a result of Alberta's total government funding (B), parent fees (A), plus enhanced service fees and the independent expense choices of operators within Alberta's definition of core child care costs. Reasonable profit and surplus is achieved through efficiency and innovation while maintaining quality.

Within the definition of core child care costs, child care operators revenue will be fully determined by Alberta as it will set a limit on parent fees (A) and determine total government funding (B). In addition, operators are required to utilize total government funding (B) and fees (A) towards core child care costs (C). As a whole, these revenue and expense factors control and limit operators to a reasonable profit or surplus. Adherence to the defined cost and revenue structure will be required to ensure continued eligibility for government funding.

### **Sound and Reasonable Use of Funds:**

Funds provided through total government funding (B), are conditional on adhering to parent fees (A), and are utilized to provide core child care costs, as defined by Alberta.

Adherence to this cost and revenue structure will be ensured by Alberta's financial and regulatory practices and reporting requirements to ensure continued compliance with the Agreement.

The combination of controls in place for revenues and costs and ongoing monitoring results in the sound and reasonable use of public funds.

Guidelines will be established to ensure that at no time will parent fees or total government funds be utilized with the sole intention to generate private asset growth.

### **Financial Reporting, Monitoring and Compliance**

Rigor and accountability will be ensured through financial reporting and quality assurance through Alberta's existing grant and finance practices. To be eligible for total government funding (B), operators will be subjected to financial and reporting accountabilities consistent with Alberta standards to ensure funding is being used soundly with mechanisms in place to perform financial reviews and audits, as required by Alberta. Operators are responsible to set fees within standards as determined by Alberta. On a monthly basis, operators must submit true and accurate reporting of the number of children and the associated number of hours into the Claims System. An operator not in good standing with Alberta's required reporting will not be eligible for total government funding (B). Alberta has rigorous financial mechanisms in place for reporting and investigating violations. Inspection by licensing officers, data reporting requirements, disclosure of fees, financial reporting and auditing provisions within the grant agreement will all support the sound and reasonable use of funds in alignment within established guidelines and grant agreements.

Within grant agreements, Alberta can withhold or recover funding on expenditures unrelated to the defined core child care cost.

The *Early Learning and Child Care Act* and associated regulation is supported by a funding manual to provide guidance to operators.

### **Implementation Plan**

Upon mutual agreement of the framework by Alberta and Canada, new private operators will be invited to participate in the Agreement under the same policies and parameters as all other licensed operators in Alberta currently operating under the Agreement including existing mechanisms for funding, monitoring and controlling costs. An implementation plan will be developed to transition all operators in Alberta to the new funding approach for 'core child care' associated with the cost control framework formula.