



Office of the
Auditor General
City of Hamilton

Directly-Operated Child Care Centre (Red Hill Family Centre) Value for Money Audit

June 12, 2025

Brigitte Minard, Deputy Auditor General



Provincial Directive

“CMSMs/DSSABs that directly operate child care centres are required to retain independent advice and conduct a value-for-money audit... to determine whether federal and provincial funding is being used efficiently and effectively by directly operated centres, and whether the child care services could be more efficiently offered instead by a third-party provider.”

Audit Objectives

- Evaluate financial management practices.
- Assess operational efficiency and sustainability.
- Evaluate program effectiveness.
- Benchmark performance with similar local operators.
- Verify adherence to regulatory requirements.
- Identify opportunities for improvement.

Value for Money Framework



What We Did

- Researched local, provincial, and national child care contexts.
 - Gained an understanding of the City's distinct roles,
- Assessed key risks and challenges,
- Analyzed multi-year financial and operational data,
- Assessed regulatory compliance,
- Reviewed parent satisfaction surveys,
- Concluded on reasons for the issues identified,
- Identified areas of improvement and advocacy.



Council Support

Revenue
\$2,135,043

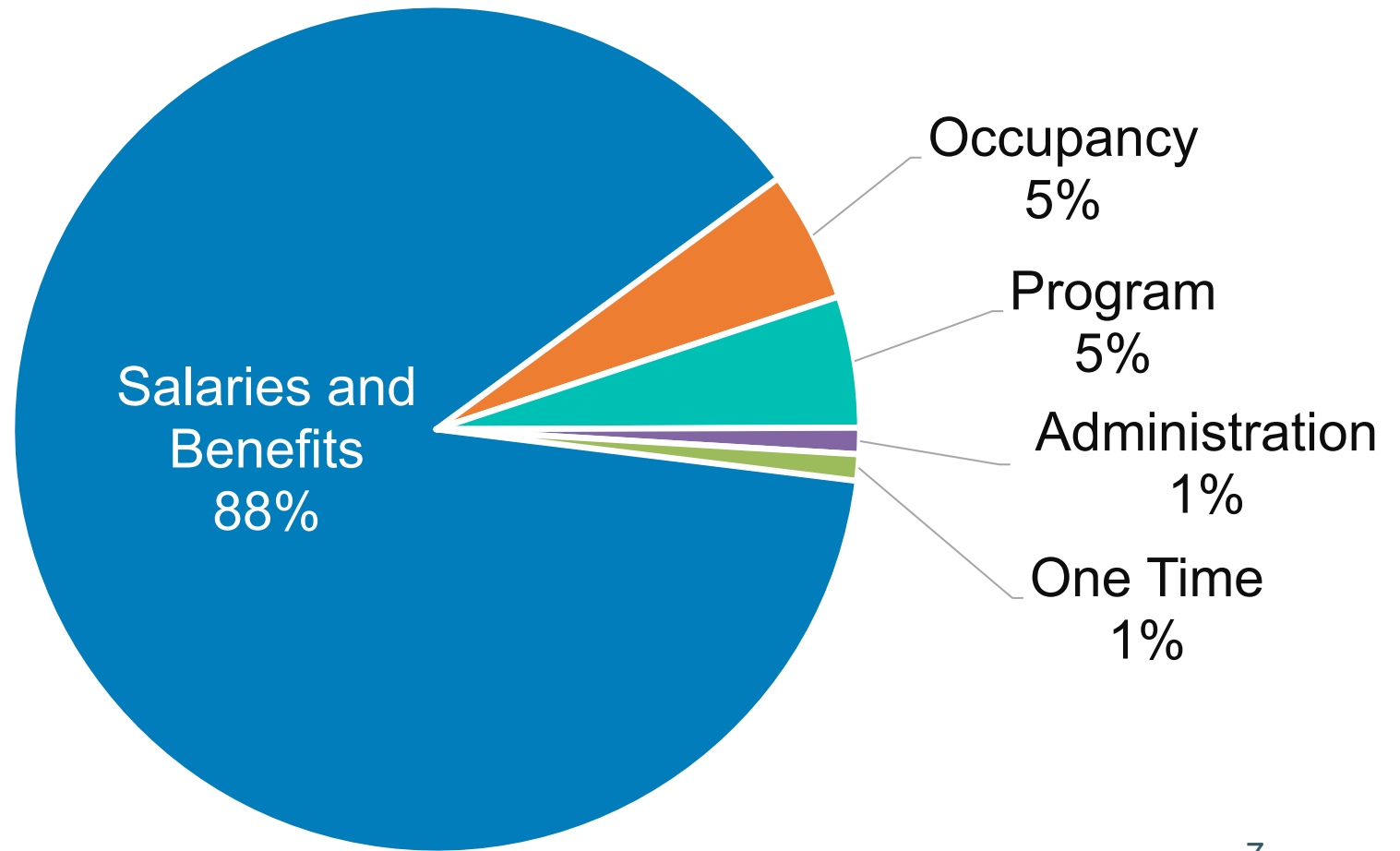
Levy
\$286,612

Expenses
\$2,421,654

Levy % of Expenses
12%

Financial Cost Driver(s)

Is Red Hill minimizing costs and maximizing financial benefits while maintaining service quality?



Benchmarking: Third Party Comparator Selection

- Operators with a licensed capacity concentration of greater than 80% toddler/preschool.
- At least three (3) years of financial data available.
- Enrolled in CWELCC.

17 local providers were used in benchmarking analysis
(unless otherwise specified)

Benchmarking: Financial Cost Drivers

Cost Category	Red Hill	Benchmarked Operators	Red Hill (revised estimate)
Administration	1%	6%	3%
Occupancy	5%	14%	7%
One Time	1%	0%	1%
Program	5%	6%	5%
Salaries and Benefits	88%	74%	84%

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Comparing “Average” Cost

- Average ‘per child’ or ‘per space’ comparisons fail to address the impact of legislative staffing requirements (main cost driver).
- Staff-to-child requirements are legislated according Age Group, with younger children requiring more staff per child.

Age Group	# of children	Required # of Staff
Infant	40	12
Toddler	40	8
Pre-school	40	5

Cost per Required Program Resource

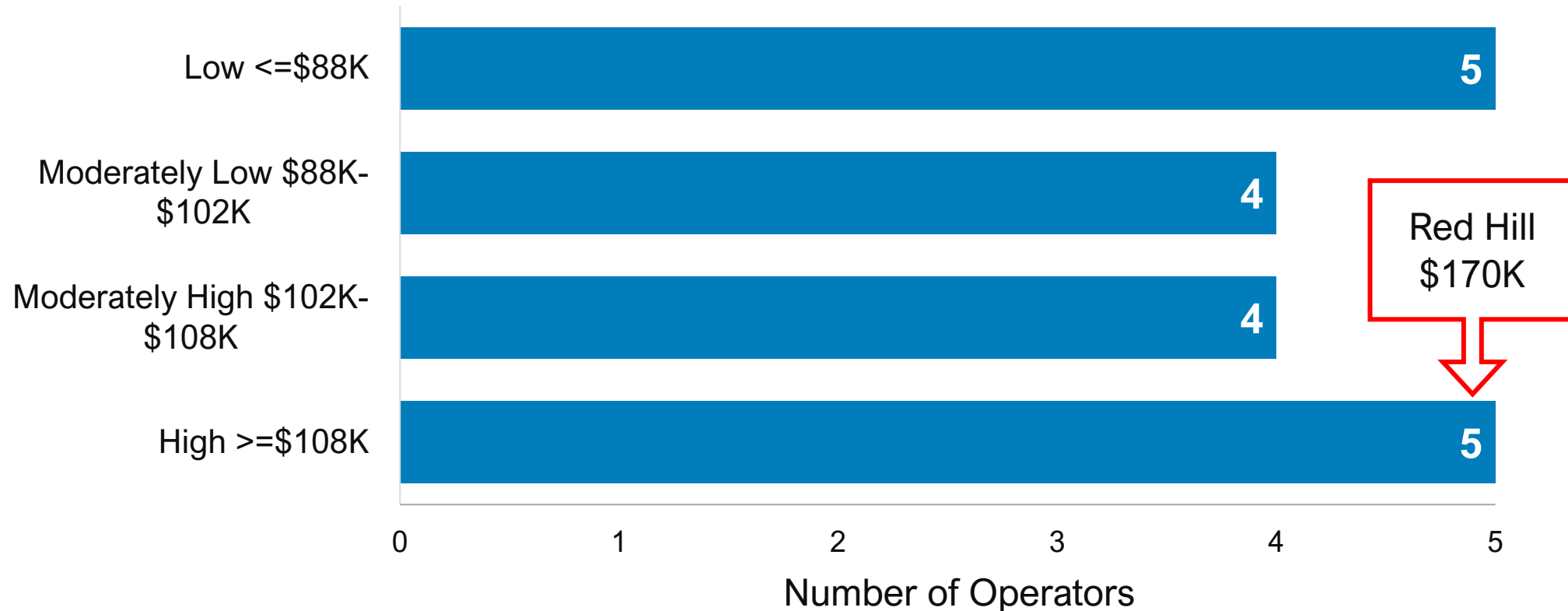
A proxy for 'unit cost'

- Inherently adjusts for age mix
- Normalizes cost burdens between operators
- Uses total cost of providing care
- Adjusted for utilization rate

It is NOT:

- The cost of an individual program resource (educator)
- Representative of salaries
- The cost per child or space

Benchmarking Cost per Required Program Resource



Higher Salaries and Benefits: Contributing Factors

- Hourly wages
- Percent of RECEs
- Special needs resourcing
- Employee benefits

Is Red Hill Maximizing Output Without Compromising Quality?

Utilization Rate

$$= \frac{\text{Operating Capacity}}{\text{Licensed Capacity}}$$

96%

Vacancy Rate

$$= \frac{\text{Vacancies}}{\text{Operating Capacity}}$$

11%

Time-on-Task

$$= \frac{\text{Providing direct care}}{\text{All activities}}$$

90%

Is Red Hill Meeting its Objectives?

- Staff have more experience than system average.
- Parent satisfaction is higher than system average.
- Actively addressing system priorities: accessibility and inclusion.
- Compliant with regulations.
- Demand is high (~600 on wait list).

The Red Hill Difference: emergent curriculum, student placements, community partnerships and “wrap-around” care.

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Overall Findings

- Red Hill operates at a higher cost relative to similar operators.
- Performance measures and quantifiable outcomes linked to service levels are lacking.
 - The child care sector struggles with measuring outcomes.
- A changed, and still-changing child care funding landscape brings greater scrutiny.

Opportunities

- Position Red Hill as a ‘best-in-class’ demonstration centre.
- Advocate for reliable measures and service levels for assessing the value of different approaches/practices in relation to cost.

Recommendations

- Overall, 14 recommendations were made to Management.
 - Management agreed with all recommendations.
- OAG is recommending that Council directs Management to report back with a status update by June 2026.

Response to the Provincial Directive

Based on Red Hill's overall performance, quality of service, and other differentiating factors, we found no conclusive evidence that outsourcing would be materially beneficial from a value for money perspective.



THANK YOU