



City of Hamilton Report for Consideration

To: Chair and Members
Audit, Finance and Administration Committee

Date: June 12, 2025

Report No: AUD25007

Subject/Title: Directly-Operated Child Care Centre (Red Hill Family Centre) Value for Money Audit

Ward(s) Affected: (City Wide)

Recommendations

- 1) That the Management Responses, as detailed in Appendix “B” to Report AUD25007 **BE APPROVED**; and
- 2) That the General Manager of Healthy and Safe Communities be directed to implement the management responses (attached as Appendix “B” to Report AUD25007) and report back to Audit, Finance and Administration Committee by June 2026, on the nature and status of actions taken in response to the audit report.

Key Facts

- The Office of the Auditor General (OAG) performed a value for money audit of the City’s Red Hill Family Centre (“Red Hill”).
- The audit was prompted by a directive from the Province of Ontario’s Ministry of Education for all municipalities that have a directly-operated child care centre.
- Red Hill operates at the higher end of costs when compared with similar providers.
- The child care sector struggles with measuring outcomes, lacks generally accepted industry wide *performance* measures for Red Hill to adopt.
- A more comprehensive set of benchmarks and service levels should be developed and published that provide comparative results for operators – this

would enable analysis of value for money achievement at both the operator and system level.

- The OAG made 14 recommendations to improve value for money at Red Hill.
- Management agreed with all 14 recommendations.

Financial Considerations

By completing this Ministry of Education-required audit in-house using existing OAG resources, this saved the City of Hamilton money by not engaging an external firm to complete this audit.

Background

This audit was conducted in accordance with the Ontario Ministry of Education's Addendum to Ontario Child Care and EarlyON Child and Family Centres Service Management and Funding Guideline 2024, which states:

"CMSMs/DSSABs that directly operate child care centres are required to retain independent advice (for example, third-party services) and conduct a value-for-money audit on their direct delivery of child care services. To assist with retaining independent advice, CMSMs/DSSABs may choose to access Ontario's Vendors of Record arrangements to acquire auditing services.

The purpose of the value-for-money audit is 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. For clarity, the scope and parameters of these value-for-money audits will be established by the auditor who is conducting the audit.

The audit report, recommendations and management responses must be posted publicly. For clarity, as per the usual audit engagement process, CMSMs/DSSABs will be responsible for responding to findings and recommendations made by the auditor, including whether the recommendations will be implemented. The rationale for not accepting recommendations should be noted in the management response and posted publicly along with the audit report. Funding will not be withheld or adjusted based on the findings of the value-for-money audit; however, the ministry may follow-up on the implementation of the recommendations received and CMSMs'/DSSABs' management responses."

Analysis

The Red Hill Family Centre provides child care to 93 children between zero (0) and six (6) years old on an annual basis at an average annual cost between 2019 and 2023 of \$2.4M. Salaries and Benefits are the main cost driver, accounting for 88% of expenses, or an average of \$2.1M each year.

Red Hill was one of more than 70 child care providers (operating over 250 individual centres) in Hamilton during the audit period. Child care centres express significant variation in their respective age group and quantity mix, and each age group has their own unique staffing requirement. This means that comparing two (or more) operators/providers with the exact same capacity mix and subsequent staffing pressure was not possible; comparisons of Red Hill were made to a group of similar operators that met three criteria:

1. Enrolled in the Canada-Wide Early Learning and Child Care Centre (CWELCC) system.
2. Have a licensed capacity of toddlers and preschoolers of 80% and higher.
3. Submitted at least three (3) years of financial statements between 2019 and 2023.

The audit assessed:

- Achievement of value for money in financial management,
- Operational efficiency including performance measurement and potential cost savings,
- Program Effectiveness,
- Regulatory compliance,
- Comparative viability of municipal vs. third-party delivery.

In addition to the above, the audit included a comparative analysis of Red Hill with similar operators.

The audit found that overall Red Hill performs at a higher relative cost than similar operators, driven primarily by salaries and benefits which account for 88% of annual expenses. Higher hourly wage rates, a high proportion (100%) of Registered Early Childhood Educators, dedicated special needs resources, and employee benefits differentiate Red Hill from others.

A formal report, attached as Appendix “A” to Report AUD25007, summarized the details of the value for money audit findings and provides comparisons on aspects such as cost-per-legislated staff requirement, utilization and vacancy rates, revenue sources, special needs resourcing, and regulatory compliance.

Overall, Red Hill performs well on some performance measures, exceeding their peers, with a few improvement opportunities available to them in certain areas.

Notwithstanding their higher relative cost to similar operators, based on their overall performance, quality of service and differentiating factors as a provider, there is no conclusive evidence to suggest that outsourcing would be materially beneficial from a value for money perspective.

We have presented Red Hill's cost structure and summarized the major quantitative and qualitative benefits worthy of consideration in this report. However, it will be up to decision makers to judge the relative value of benefit to cost.

Alternatives

Not applicable.

Relationship to Council Strategic Priorities

- 3. Responsiveness & Transparency
 - 3.4. Build a high performing public service
 - 3.5. Modernize City systems

Previous Reports Submitted

[Report AUD19014 Children's Services Risk Assessment](#)

Consultation

Children's and Community Services Division

Legal and Risk Management Services Division

Finance and Administration staff supporting the Children's and Community Services Division

Appendices and Schedules Attached

Appendix A: Directly-Operated Child Care Centre (Red Hill Family Centre) Value for Money Audit Report

Appendix B: Recommendations and Management Responses

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