



## Office of the Auditor General City of Hamilton

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



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# Contents

Executive Summary..... 3

Introduction and Background..... 4

    Child Care in Ontario/Canada ..... 5

    The City of Hamilton’s Role in Child Care ..... 6

    Licensed Centre-based Child Care in Hamilton..... 6

    Red Hill Family Centre ..... 7

Audit Objectives..... 8

Audit Scope ..... 9

What We Did ..... 10

How We Did It..... 10

    Data Limitations..... 11

What the Scope Did Not Include..... 12

Key Terms..... 12

Detailed Findings..... 14

    Benchmarking Red Hill to Third Party Operators..... 14

    Financial Management Effectiveness..... 14

    Explanation of Higher Salaries and Benefits ..... 23

    Administration/Occupancy Expenses ..... 25

    Operational Efficiency ..... 26

    Program Effectiveness ..... 30

    Quality of Services ..... 33

    Compliance ..... 36

Overall Findings..... 38

Conclusion..... 39

Recommendations..... 39

## Executive Summary

- 1 This value for money audit (VFM) 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*, to specifically address the requirement "to retain independent advice and conduct a value for money audit on the direct delivery of child care services," and incorporates findings from a comprehensive review of the Red Hill Family Centre, other audits of municipal child care centres, early learning reports, and best practices in public-sector value for money audits. 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.
- 2 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.
- 3 Red Hill performs well in terms of utilized capacity, consistently operating at 96% of their licensed capacity. This is not the highest rate within the comparator group, however it does place them well into the highest quartile.
- 4 Conversely, Red Hill experienced a higher average vacancy rate during the study period in comparison with similar operators which impacts overall value for money.
- 5 Red Hill spends proportionately less on Administration costs than similar operators, at least in part due to being part of the larger City of Hamilton organization, benefitting from not directly paying for items that other operators do such as bookkeeping, audit expenses, legal fees, rent, and payroll processing.
- 6 Revenue data shows that 4% of Red Hill's total revenue comes from parent fees, in contrast to similar providers who on average see 44% of their revenue come from parent fees, indicating that Red Hill serves a much higher proportion of lower income families than do similar operators.
- 7 Red Hill has two (2) full-time Special Needs Resources (SNR) to assist children in need of additional support. Each resource carries an average monthly caseload of eight (8) children, as opposed to three (3) other SN Resources supporting the

broader community of Hamilton's child care operators, who support on average 11, 15, and 60 children per month, per resource.

- 8 Lastly, Red Hill maintains a strong record of regulatory compliance, experiencing a very favourable average of 1.3 "requirements not met at inspection", per inspection. This is lower than similar operators.
- 9 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 believe that the Province and child care policy makers are well served in moving toward a strong regime of generally accepted cost benchmarks and service levels with which to evaluate value for money and the achievement of desired outcomes being delivered by operators on an ongoing basis. In terms of overall value for money demonstrated by Red Hill, we have presented its 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.

## Introduction and Background

- 10 In recent years, both Federal and Provincial governments have made sweeping changes to improve the affordability of child care.
- The Government of Canada introduced the Canada-wide Early Learning and Child Care (CWELCC) System Guidelines, with fee reductions that began in Spring 2022. The fee reductions were the first of a multi-year approach to create a 'level playing field' of child care costs for parents. Further reductions were implemented between 2023 and 2025.
  - The Province of Ontario announced a new funding formula for child care in 2024. The new formula normalizes funding amounts on regional averages, to bring funding for individual centres into alignment with each other.
- 11 These system-wide changes effectively prescribe value for money by pre-determining the financial inputs required to meet regulatory requirements (most notably, staff-to-child ratios).



## Child Care in Ontario/Canada

- 12 Primary responsibility for child care in Canada rests with the 13 Provincial and Territorial governments.
- 13 The Federal Secretariat on Early Learning and Child Care<sup>1</sup>, was announced in the federal government's 2020 Fall Economic Summit and tasked with "building capacity within the government and engage stakeholders to provide child care policy analysis to support a Canada-wide Early Learning and Child Care (ELCC) system." The Federal Secretariat negotiates and manages a bilateral agreement with the Province of Ontario to implement a Canada-wide Early Learning and Child Care (CWELCC) system. Federal funding is intended to achieve "an average of \$10 a day by 2025 to 2026 for all regulated child care spaces in Canada."
- 14 At the national level in 2023, there were enough full- or part-day spaces to cover 31% of 0 – 5 year olds (not including before- and after-school programs.)<sup>2</sup> In 2022, the Province of Ontario signed the CWELCC Agreement with the Government of Canada to support the goal of achieving average child care fees of \$10 per day for children under the age of six (6) by the end of fiscal year 2025-2026. The agreement prioritizes five areas:
- Lowering fees
  - Increasing access
  - Enhancing quality
  - Supporting inclusion
  - Strengthening data and reporting
- 15 Since the agreement was signed, three (3) fee reductions have occurred, two (2) within the study period and one (1) more recently:
- April 1, 2022
  - December 31, 2022
  - January 2025
- 16 The Province sets policy, legislation, and regulations for child care, under the authority of the *Child Care and Early Years Act* (CCEYA), 2014, and licenses child care programs across the Province. The Province also conducts inspections and investigates complaints about licensed and unlicensed child care.

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<sup>1</sup> <https://www.canada.ca/en/employment-social-development/programs/early-learning-child-care.html>

<sup>2</sup> Early Childhood Education and Care in Canada 2023: Summary and Analysis, Childcare Canada Childcare Resource and Research Unit, August 2024. <https://childcarecanada.org/>

- 17 The Province funds 47 local Service System Managers (SSMs) throughout Ontario to support licensed child care and child and family programs. The City of Hamilton's Childrens and Community Services Division, (not the Red Hill Family Centre), is the SSM for Hamilton, Ontario, with the task (and authority) to determine funding priorities within the local context.
- 18 As of March 31, 2024, there were 5,836 child care centres and 516,455 licensed child care spaces for children ages 0 to 12 in Ontario. About three quarters (74.4%) of licensed child care centres were not-for-profit (operated by not-for-profit organizations, municipalities, and First Nations) and 25.6% were for-profit.<sup>3</sup>

### **The City of Hamilton's Role in Child Care**

- 19 The City of Hamilton has two distinct roles in the local child care sector:
1. As System Service Manager (SSM), accountable to the Province of Ontario and responsible for allocating federal/provincial funding to local Operators.
  2. As the operator of a "directly-operated child care centre" (Red Hill Family Centre), accountable to Hamilton City Council and the Province of Ontario for providing child care services as per their licensing agreement.
- 20 The City's role as SSM was not in scope for this audit, however, as stewards of system-wide data management, the Childrens and Community Services Division provided data required to allow for comparative analyses to be carried out.

### **Licensed Centre-based Child Care in Hamilton**

- 21 By the end of 2023, 95% of licensed centre-based child care spaces in Hamilton were enrolled in CWELCC, which equates to more than 21,000 spaces.
- 22 Of the licensed CWELCC-enrolled spaces, Red Hill's licensed capacity of 97 spaces is less than half a percent (0.48%) of these spaces.

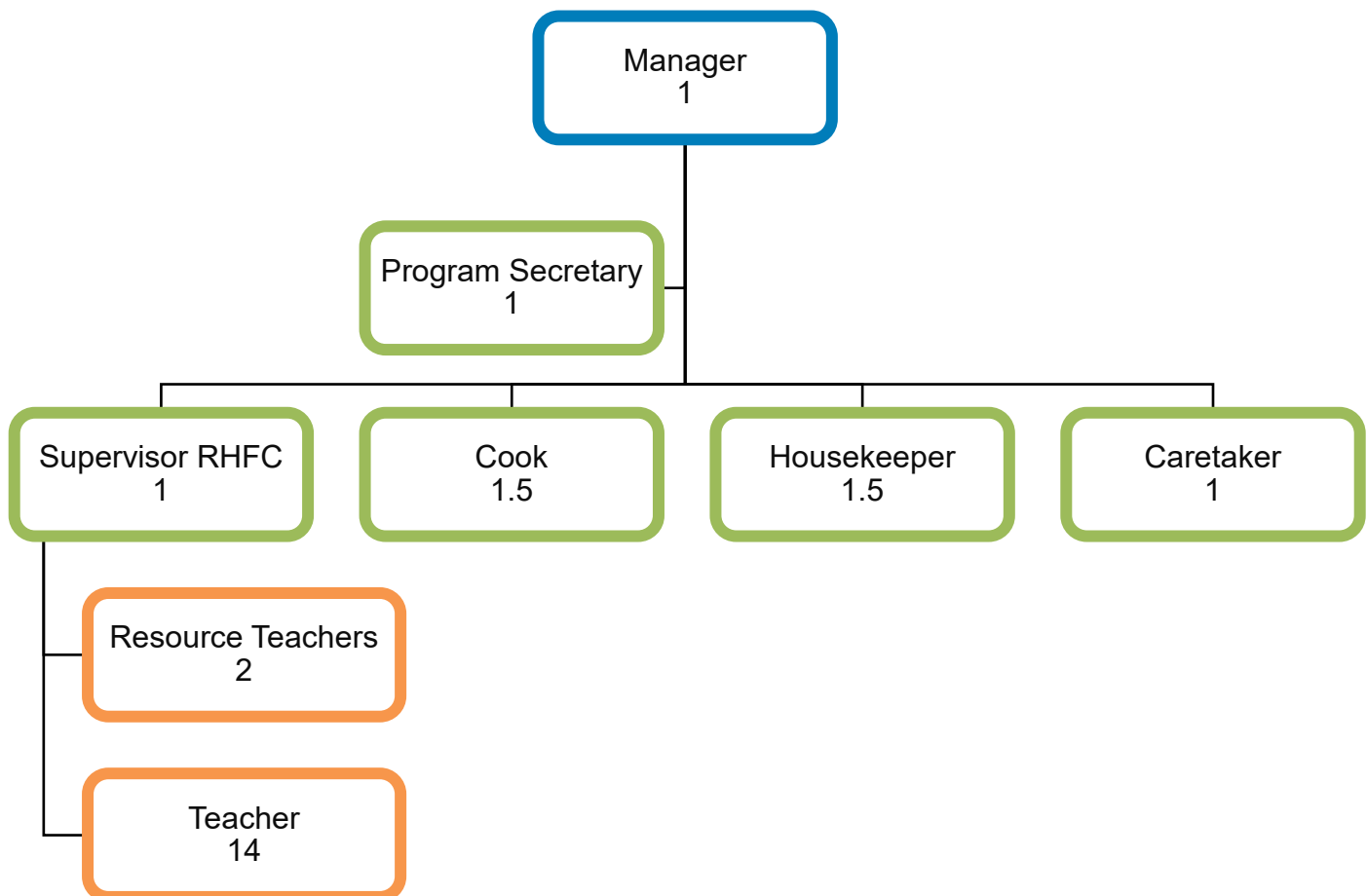
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<sup>3</sup> Ontario's Early Years and Child Care Annual Report 2024. <https://www.ontario.ca/page/ontarios-early-years-and-child-care-annual-report-2024>

## Red Hill Family Centre

- 23 The City's Red Hill Family Centre ("Red Hill") has been serving the community's needs for over 40 years with its unique family-based approach to child care.
- 24 Located at 25 Mount Albion Road, it is located in Ward 5, close to the border of Ward 4, which has one of Hamilton's highest percentages of children vulnerable on Early Development Instrument (EDI) Domains<sup>4</sup>.
- 25 A team of 16 educators oversees 30 toddlers (ages 18 – 30 months) and 63 preschoolers (ages 30 months – 6 years) from 7:30 a.m. to 5:30 p.m., Monday through Friday.

**Figure 1: Red Hill Family Centre Organizational Chart**



<sup>4</sup> City of Hamilton, *Hamilton's Early Years Community Plan – 2023 Environmental Scan*.

- 26 Red Hill's approach is based on the premise that families are experts about their children and greatly contribute to their learning and development. Parents/guardians are considered partners in the success of each child.
- 27 The Centre claims that their 'family-first' approach and 'wrap-around' service model add unique value by connecting families to quality of life supports (income, education, health, transportation, employment, safety/legal, and shelter). As a Section within the City of Hamilton, they have an advantage of working relationships colleagues in other City Departments/Divisions that provide supports for families which helps them to assist families with system navigation.
- 28 In addition to its core staff of teachers (RECEs), Red Hill employs two (2) full-time Resource Teachers (RTs, also referred to as Resource Consultants or RCs) who provide support to children with special needs. They are the only child care centre in the Hamilton Service System to employ dedicated special needs resources. Other Operators in Hamilton access third party special needs resourcing from agencies that support the broader local child care system.

## Audit Objectives

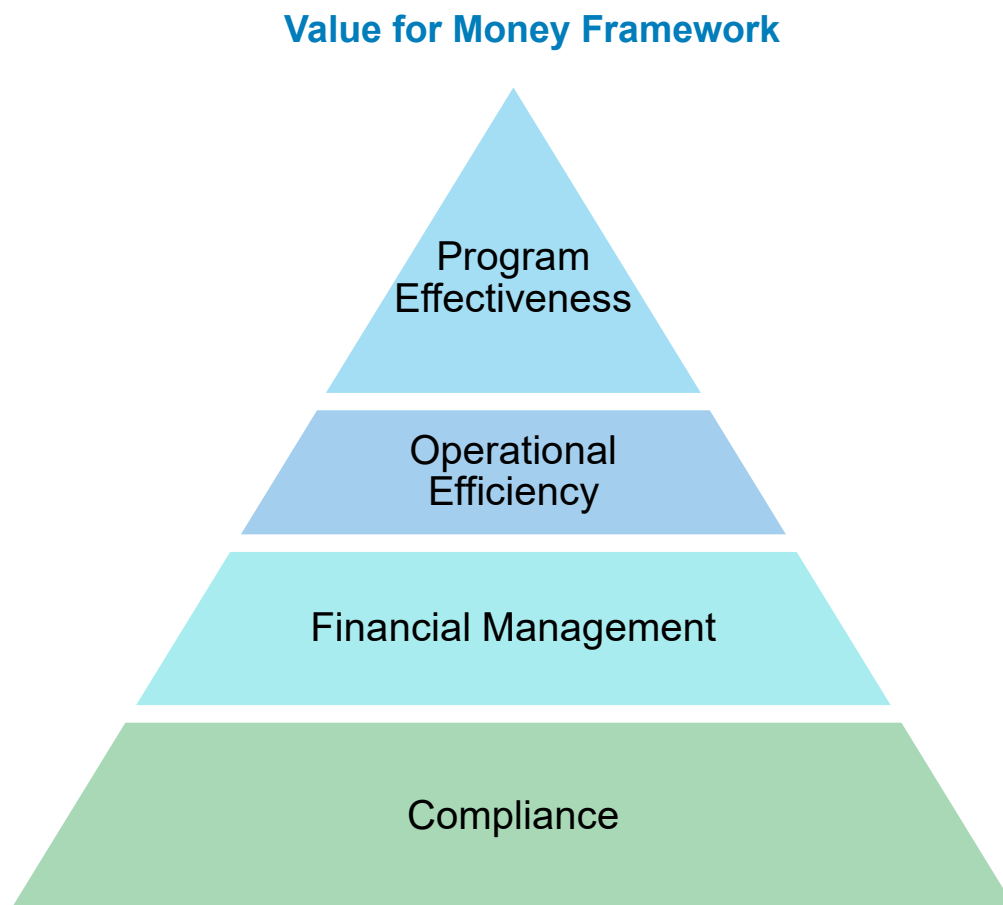
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1. Evaluate financial management practices for prudent fund use, including compliance with CWELCC program requirements.
  2. Assess operational efficiency and sustainability in delivering child care services.
  3. Evaluate the effectiveness of programs in achieving outcomes, including governance and oversight.
  4. Assess compliance with relevant laws, regulations, and strategic planning frameworks.
  5. Perform benchmarking to compare Red Hill Family Centre to other relevant, local child care Operators.
  6. Identify areas for improvement and provide recommendations.



## Audit Scope

- 30 The audit covers the period from 2019 to 2023 and examines the key elements of value for money as follows:

Figure 2



- **Program Effectiveness:** assessment of service quality, equity and accessibility, achievement of educational and strategic goals, and satisfaction of stakeholder needs.
- **Operational Efficiency:** economical sourcing of inputs, examination of resource allocation, utilization, staff productivity, facility management, and workforce sustainability.
- **Financial Management:** review of budgeting, financial planning, revenue and expenditure analysis, risk analysis and internal control systems.
- **Compliance:** adherence to regulatory requirements, policies, and oversight.

## What We Did

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- Gained an understanding of the child care sector in Ontario/Canada as it relates to the local context (i.e., Canada-Wide Early Learning and Child Care (CWELCC) System implementation; *Child Care and Early Years Act (CCEYA)*, 2014).
- Gained an understanding of:
  - The distinct roles that the City of Hamilton has in the Provincial child care system.
  - The processes related to the administration and operations of a child care centre.
  - Child care best practices, challenges, and opportunities previously identified in studies by industry organizations, academic institutions, and other municipalities.
- Assessed key risks and challenges, including on-going changes to child care affordability and Provincial funding models.
- Analyzed multi-year financial and operational data to assess Red Hill's performance; identified a comparator Operator group to compare benchmark Red Hill against.
- Assessed regulatory compliance and historical inspection results.
- Reviewed parent satisfaction surveys.
- Concluded on reasons/root causes for the various issues identified.
- Identified areas of improvement or advocacy for optimizing economy, efficiency, and effectiveness (value for money).

## How We Did It

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1. Reviewed legislative (and related) documents published by the Province of Ontario and Government of Canada applicable to operating a child care centre.
2. Interviewed Red Hill leadership and staff, Service System Manager staff, and Senior Leaders in the Healthy and Safe Communities Department.
3. Conducted on-site reviews of program delivery and compliance, including classroom observations.

4. Identified key performance indicators (KPIs) and risk factors.
5. Gathered and performed analysis of data.
6. Identified local child care Operators with a similar age group and capacity mix to compare Red Hill's performance with.

## Data Limitations

- 33 Fieldwork was based on data from 2019, 2020, 2021, 2022, and 2023.
- Capacity data from 2021 has been removed from related analyses, findings, charts, diagrams, and recommendations due to noticeable irregularities in reporting, resulting from Ministry-prescribed capacity restrictions during the pandemic.
  - Revenue-related analyses do not contain 2022 data points as the full data set was not available.
  - Some Operators included in the analysis are no longer active; however, their historical data was valuable to this audit/report.
- 34 The introduction of CWELCC changed how financial data (both expenses and revenues) is submitted by Operators. This required us to map expense and revenue category names to ensure a consistent taxonomy across the audit period.
- 35 Data is not collected at the same level of detail across data sets:
- Capacity and inspection-related data is available for individual child care centres/sites.
  - Financial information is rolled up to the Operator or 'head office' level.
  - Special needs resourcing data contains the number of children supported by a given SNR Operator but does not provide details on the recipient sites or Operators.
- 36 Annual audited financial statements submitted by child care Operators contained gaps in reporting, such as a lack of explanation or details for 'one-time' expenses. For Red Hill Centre there is no equivalent of stand-alone audited financial statements useable for reporting of accountability and stewardship requirements.
- 37 Some of the data is self-reported, such as capacity-related data, which is provided by child care Operators to the City in its SSM role. The self-reported data lacks a process to validate the data submitted. Analysis was performed based on the data available to the Office of the Auditor General (OAG). To mitigate known irregularities, capacity-related data from 2021 was removed from the analysis.

- 38 The OAG assessed the available information and performed benchmarking wherever possible and made best efforts to appropriately weight and map information so that relevant and accurate benchmarking was performed.

## What the Scope Did Not Include

- 39 Auditing third-party child care centre operators; third party data (where available) was used for comparative analysis only.
- 40 Auditing the City's role as System Service Manager (SSM).

## Key Terms

- 41 **Directly-Operated Child Care Centre (DOCC):** a child care centre operated by a municipality or District Social Services Administration Board.
- Licensed Capacity:** the maximum number of children in each category allowed to be receiving care as set out in a Ministry of Education-approved license, under the Child Care and Early Years Act (CCEYA), 2014.
- Operating Capacity:** the number of child care spaces with adequate staffing, as per the staff-to-child ratios in the CCEYA, 2014.
- Utilization Rate:** a performance measure that indicates the efficient use of licensed capacity. Calculated by dividing operating capacity by licensed capacity and represented as a percentage.
- Vacancy Rate:** a performance measure that indicates the efficient use of operating capacity. Vacancies represent unfilled operating spaces, of which the Operator is adequately staffed to have filled. Calculated by dividing the number of vacancies by operating capacity and represented as a percentage.
- 42 Acronyms
- CCW:** Child Care Worker
- CWELCC:** Canada-Wide Early Learning and Child Care
- DOCC:** Directly Operated Child Care (municipal)
- ECE:** Early Childhood Educator/Education
- MoED:** Ontario Ministry of Education

**CCEYA:** Ontario's Child Care and Early Years Act, 2014

**O. Reg.:** Ontario Regulation

**O. Reg. 137/15:** CCEYA GENERAL Regulation

**O. Reg. 138/15:** CCEYA FUNDING Regulation

**RECE:** Registered Early Childhood Educator, ECEs who are 'Registered' with the College of Early Childhood Educators of Ontario

**RHFC:** Red Hill Family Centre, written as "Red Hill" throughout this report

**SSM:** System Service Manager, of which the City of Hamilton is one

## Detailed Findings

- 43 To evaluate value for money delivered by the Red Hill Family Centre the Office of the Auditor General relied on a comparative analysis of costs and other metrics, relative to other operators. The reliability of the analysis necessarily involves selecting data that is accurate from operators that are similar in material respects to Red Hill.

## Benchmarking Red Hill to Third Party Operators

### Benchmarking - Comparator Selection

- 44 To implement our benchmarking analysis, we developed a set of criteria to guide our selection of benchmarked operators. They are, in the order that they were applied:
- Operators with a licensed capacity concentration of greater than 80% toddler/preschool
  - At least three (3) years of financial data available
  - Enrolled in CWELCC
- 45 These criteria yielded a list of 17 similar operators in Hamilton that were used throughout our benchmarking analysis unless otherwise specified. Figures that display data counts with Red Hill included will add up to a total of 18; 17 similar operators plus one (Red Hill.)

## Financial Management Effectiveness

- 46 In the delivery of direct child care services, the key drivers of cost are related to staffing requirements, which depend on the number and age categories of students, as well as the facilities and space needs that enable a safe, secure, and amenable environment for the children.
- 47 For the purposes of analysis, we broke costs into five major cost categories. These categories are:
- Administration: accounting/legal costs, consulting fees, depreciation, insurance, office supplies, payroll processing, telephone/internet, etc.
  - Occupancy: amortization, cleaning costs, rent/mortgage, property taxes, repairs and maintenance, utilities, etc.
  - Salaries and Benefits: all salary and benefit-related costs.



- Program: food service costs, programmatic materials and supplies, training, transportation, special events, safety and security.
- One-time: Costs related to one-time needs.

48 Financial information reported from 2019 – 2023 was analyzed to determine the main drivers of Red Hill’s annual expenses and to benchmark Red Hill with similar child care centre operators in Hamilton. The chart below shows the average annual cost categories as a percent of total expenses.

**Table 1: Average Annual Cost Categories (% of Total Expenses)**

| Cost Category         | Red Hill | Benchmarked Providers | 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%                         |

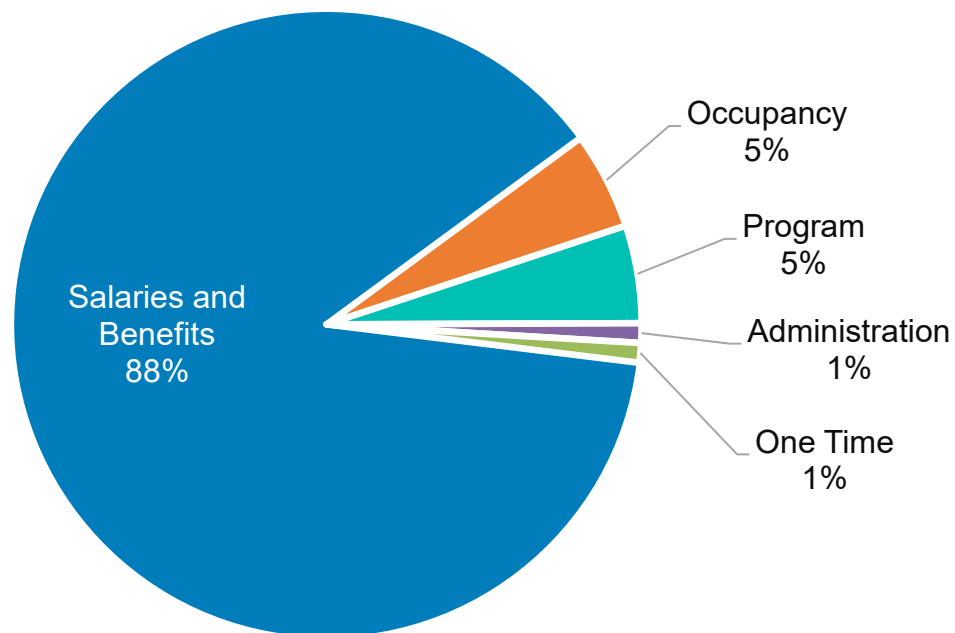
49 Noticeable differences in Administration, Occupancy, and Salaries and Benefits were further analyzed to understand what contributes to these differences. Contributing factors fall into two (2) groups:

1. Higher (than benchmarked operators) employee-related expenses.
2. Lower (than benchmarked operators) administrative and occupancy expenses.

50 The Red Hill (revised) column shows estimates for Red Hill based on incorporating administrative and occupancy amounts of benchmarked operators and is described in more detail below.

51 Red Hill’s primary cost driver is staffing which is reflected in relatively high costs for Salaries and Benefits, which account for an average of 88% of total annual expenses, or \$2.14 million in the five years of data reviewed by the OAG. This is well above the comparator or “peer” group at 74%.

**Figure 3: Red Hill Average Annual Cost**

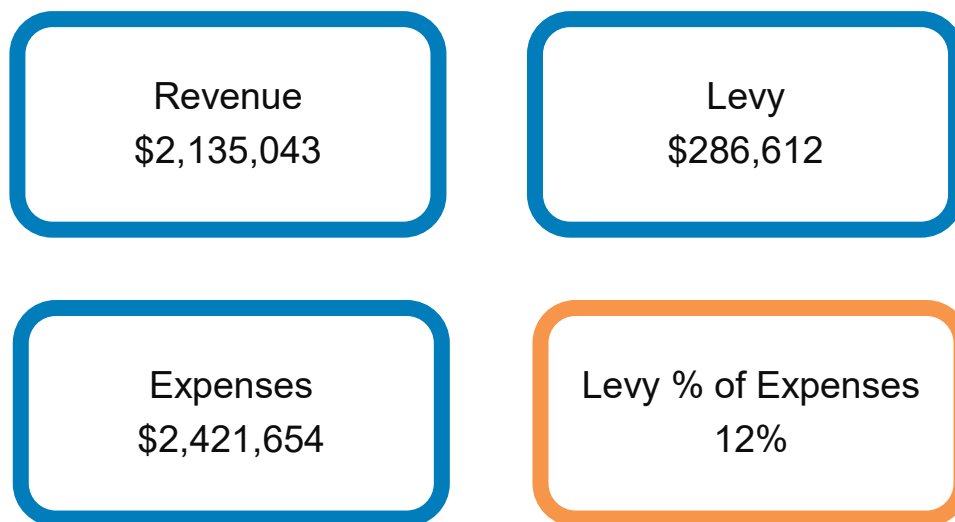


52 The percentage of costs for administration and occupancy are well below the peer group shown in Figure 3 above. Part of this is because salaries and benefits are correspondingly high – a larger component of overall expenses. However, we also found that there were certain types of costs not reflected in Red Hill’s expenses that are reflected in the comparison group; therefore, the Red Hill data did not always reflect the full costs of services. For example, under administration there was an absence of insurance, audit, accounting, and human resource related processing that either reflect services not used or services that receives from other City Departments, but not explicitly charged for. Similarly for occupancy-related expenses there was either an absence of certain costs or some that we believe did not reflect the full value of services Red Hill receives from the City. The OAG made an estimate of these costs which amounted to about \$110K annually. After the estimate to Red Hill’s actual expenses, we revised the percentages of each category which are shown in the Red Hill (revised) column in Table 1. The result was a salary and benefit component that fell to 84%, whereas administration and occupancy rose to 3% and 7% respectively.

53 The OAG also found that Red Hill annually receives funding from the City of Hamilton’s tax levy. On average, Red Hill augments Provincial/Federal funding with about \$290,000, which represents an average of 12% of annual expenses, shown in Figure 4 below.

- 54 Annual support from the City of Hamilton suggests that there is a difference between the Province's required (and funded) service expectations and the service level provided by Red Hill. Detailed analysis of contributing factors is provided below under the heading "How does Red Hill Compare in Cost?". In terms of the additional funding and City services that Red Hill enjoys, OAG believes there is an opportunity to differentiate themselves more aggressively with the added value they provide. They could do this by developing and leading the development of metrics and service level measures to better practices in operations, learning, and reporting.
- 55 Council's annual financial support was consistent over the audit timeframe and is included in our analysis, suggesting it will be a continued need moving forward. In light of the significant changes the child care system has seen in the past few years with the implementation of the CWELCC system, and with the current transition to a new funding approach, there appears to be potential risk in both relying on the City funding moving forward and not having the funding moving forward. The Province's approach is generally moving away from a revenue replacement approach to more of a benchmarking/standard costing regime. Red Hill needs to assess the emerging risks and derive mitigation strategies accordingly. One likely risk is that cost elements could face a more strictly controlled and disciplined environment. Children's Services staff will need to continue to assess the situation as more details of the funding model are made available. We were informed just prior to finalizing this report that Red Hill has been selected (using Provincial criteria) for a detailed cost review using 2025 actual expenditures. This review should help Red Hill to focus their risk management efforts accordingly.

**Figure 4: Red Hill Average Funding Summary**



## What controls are in place for fee collection?

- 56 During a meeting with the Red Hill team to learn about financial management policies, processes, and practices, a lack of internal controls was identified around the handling and processing of cash payments. Red Hill management met with finance staff to determine improvements that could be made immediately rather than waiting for the audit results.
- 57 A spot cash handling compliance audit revealed significant risks because of the lack of controls around cash handling, compounded by an inconsistent process to collect, store, and deposit monthly cash payments. Analysis of transaction data from November 3, 2023 to March 13, 2025 shows that cash payments constituted 3.34% of total payments made during that time period. The OAG will be reporting further on this matter in our upcoming Fraud and Waste Report that will be released in Q4 2025.

## Are administrative costs proportionate to service delivery?

- 58 Annual Administrative costs account for 1% of total expenses on average from 2019-2023. This is within the Ministry of Education's target of 10% or less set for System Service Managers to allocate to Operators<sup>5</sup>. It is low compared to similar Operators whose administrative costs average just under 6% of total annual expenses. Factors contributing to this difference were provided in a previous section of the report.

## How Does Red Hill Compare in Cost?

### Benchmarking Costs - Challenges

- 59 Two challenges arose during the audit when evaluating how Red Hill's care compares to others in terms of cost and service quality.
- 60 First, few operators, if any, have the exact same licensed capacity quantity and age group mix to allow for a reasonably precise comparison. Each age group has a legislated staff-to-child ratio, with younger age groups requiring more staff resources than older age groups. No two age groups are alike; comparing financial performance of one operator against another's without accounting for their respective capacity mix risks oversimplified, and inaccurate, conclusions. Other capacity-related factors, such as operators whose portfolio is comprised exclusively of before and after school care

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<sup>5</sup> Canada-Ontario Canada-wide Early Learning and Child Care Agreement, Annex 2: Ontario's action plan for fiscal year 2022 to 2023 and fiscal year 2023 to 2024, Section 4.5 Priority Areas, Subsection 4.5.5 Priority area #5: implementation and ongoing supports, Table 17: Summary table: administration, municipal support, and implementation. <https://www.canada.ca/en/early-learning-child-care-agreement/agreements-provinces-territories/ontario-canada-wide-2021.html>

versus full-day care versus offering both options, creates significantly different operational cost and funding scenarios.

- 61 The second challenge is the absence of standard benchmarks and methodologies that reliably enable assessment of value for money, most notably when it comes to empirical measurements for quality of care and development-related outcomes.

## **Unit-Based Cost Comparison**

- 62 “Average Annual Cost of Child Care” is a measure posted on the City of Hamilton’s online performance dashboard. However, we note that this measure is of limited use in evaluating an operator’s performance in terms of cost effectiveness. The measure presents the average annual cost to parents by averaging monthly data related to infant, toddler, and preschool full-time spaces in Hamilton. It does not reflect an operator’s total costs to deliver their respective child care program. The most recent metric posted on the dashboard, which is somewhat dated and presented for 2022, shows the annual “cost” of child care per child as being \$7,409 per child. However, this is not what child care actually costs to deliver. For example, in our analysis of five years of data for Red Hill we calculated that the actual annual costs of delivery to be approximately \$26,000 per child. In our opinion there would be better and more transparent disclosure if both the cost to parents and the cost to provide care were provided. These two measures taken together would inherently disclose the level of taxpayer subsidy. These measures should also be presented in a timelier manner.
- 63 We also note that if the data on total cost of provision were to be presented for each operator it would provide a window into the cost effectiveness of each provider. However, there is a confounding issue that would need to be addressed.
- 64 Any “per child” measure fails in addressing the impact of differing staff requirements (and therefore costs) due to the different mix of age groups that providers have; the measure does not consider the legislated staff-to-child ratios which directly drives operational costs. Younger age groups require more staff-per-child; which increases per-child staffing costs and subsequently overall staffing costs, creating a range of costs/values for a licensed space in each age group. For example, the table below shows the required number of educator staff, typically ECE’s, for 40 children in different age groups. It shows that staffing requirements vary a great deal depending on the age group. The cost “per child” of providing service to the infant age group can be expected to be much higher than in providing service to pre-schoolers, given that staffing costs are by far the largest component of delivering child care services.
- 65 Overall, we concluded that publicly-accessible reporting can be significantly improved in terms of timeliness, the measures used, and comparisons between operators.

**Table 2: Required Educator Staff by Age Groups**

| Age Groups    | Required Educator Staff |
|---------------|-------------------------|
| 40 Infants    | 12                      |
| 40 Toddlers   | 8                       |
| 40 Pre-school | 5                       |

## Methodology

- 66 To facilitate an effective benchmarking of Red Hill’s cost effectiveness, we needed a measure that would enable us to compare apples to apples. The use of any “per child” measure that assumes an average cost pressure of each child is not suitable for such purpose since varying ratios of staff-to-child requirements are legislated by the Province. Instead, the OAG opted to use a different type of measure - which is the required number of program staff (educators) - as a proxy for what is often referred to as ‘unit cost’ when evaluating cost effectiveness. In other words, rather than comparing providers on a cost per child basis, we compared them on a cost per required worker basis. This method has been used in recent value for money assessments by the District of Parry Sound Social Services Administration Board<sup>6</sup> and the District of Rainy River Services Board<sup>7</sup>. It has the advantage of implicitly adjusting, pro-rata, for the age mix of an operator’s program.
- 67 By starting with licensed capacity as the base number, the required number of program staff can be calculated using the staff-to-child ratios prescribed in Ontario Regulation 137/15. The total number of required program staff is inherently weighted to the capacity mix of each child care operator because of the prescribed staff-to-child ratios.
- 68 This approach normalizes the cost burdens between operators, enabling more effective comparison.
- 69 Since this is a value for money audit of Red Hill’s entire operations, total annual expenses divided by the required number of program staff provides a better measure of how much they spend per required resource and automatically adjusts for the different mix of child groups and quantities when comparing other operators.

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<sup>6</sup> District of Parry Sound Social Services Administration Board *Value For Money Audit of Direct Delivered Child Care*, 2024.

<sup>7</sup> District of Rainy River Social Services Board *Value For Money Audit of Direct Delivered Child Care*, 2025.

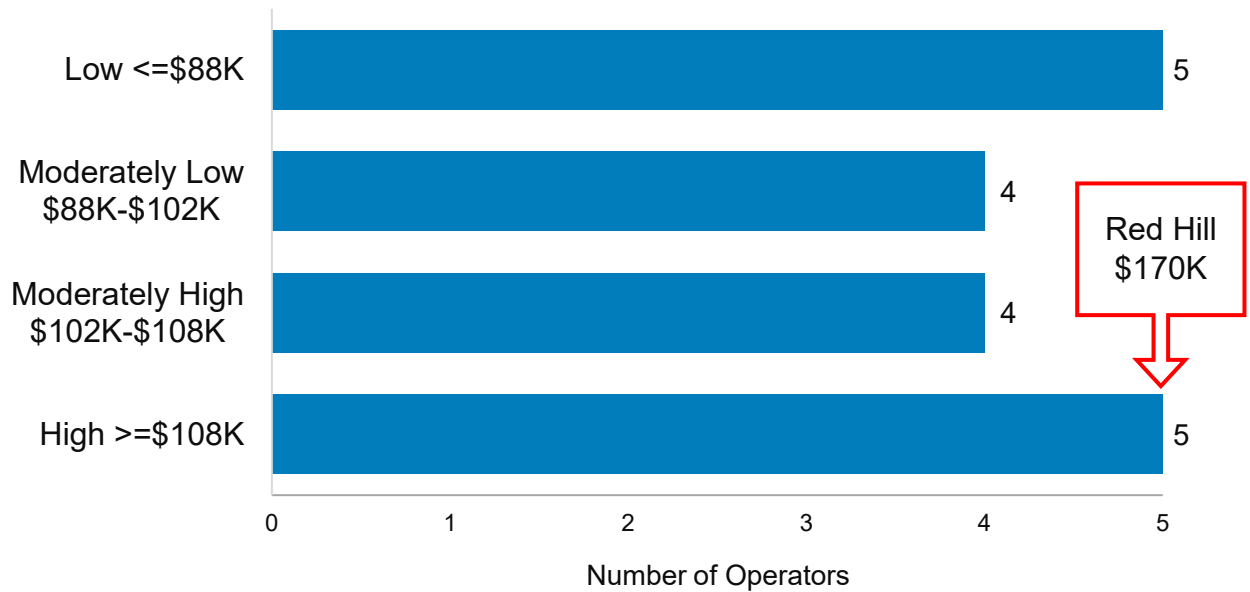


- 70 However, there is one additional modification that is necessary. Not all providers are operating at licensed capacity as determined by the Province. Therefore, we adjusted licensed capacity to reflect actual capacity, called operating capacity, more accurately, by multiplying the number of required program staff by the centre's utilization rate. Utilization rate is calculated by dividing operating capacity by licensed capacity. A low utilization rate will return a higher cost per resource which is intuitively correct; a utilization rate of 100% (operating capacity = licensed capacity) will not affect the cost per resource, keeping it lower than would otherwise be the case, which aligns with the greater efficiency of having a high utilization, and encourages efforts to achieve and maintain a utilization rate of 100%.
- 71 It should be noted that the name of the measure, 'Cost per Required Program Resource' is not the cost "of" a program resource (educator), nor a representation of a program resource's salary. It is also not a per child or per space cost as one (1) required program resource will care for multiple children/spaces. It is intended to act as a surrogate for a normalized 'unit' cost of all operating expenses for a licensed child care centre respecting Provincial staff-to-child requirements.

### **Benchmarking Costs, Findings (by Quartile)**

- 72 Using this measure of cost comparison to assess efficiency we found Red Hill's Cost per Required Program Resource (worker) of approximately \$170K to be in the highest quartile of similar providers as shown in Figure 5 below. For each resource that Red Hill is required to have, based on utilized capacity, they spend an average of \$170K per year. Not only is this amount in the highest quartile, which begins at approximately \$108K per required program resource annually, it is the highest cost per required worker of the peer group. The median cost was \$102K and the range was \$60K to \$170K.
- 73 Further analysis was carried out to determine what factors contribute to their high relative cost among the comparator group.

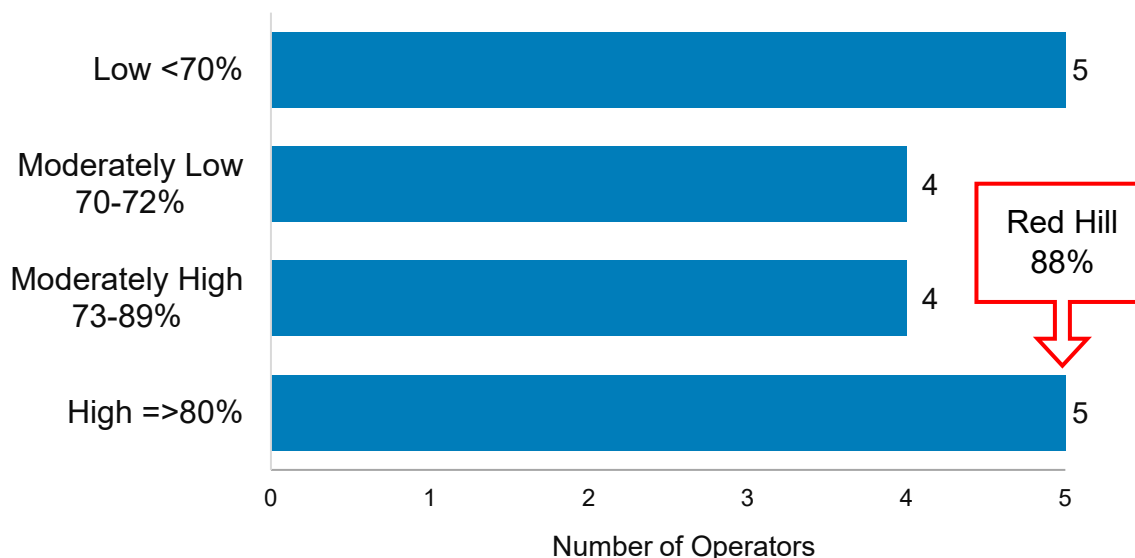
**Figure 5: Cost per Required Program Resource, Benchmarking Red Hill with Similar Operators**



74

The main driver of Red Hill's higher annual expenditures is salaries and benefits, which accounted for 88% of Red Hill's average annual expenses. This places Red Hill in the highest quartile for the percent of costs related to salaries and benefits when benchmarked with similar providers as shown below in Figure 6: Salaries and Benefits as a Percentage of Total Expenses. Except for salaries and benefits, all other costs – occupancy, administration and program were proportionally lower than the peer group. We continue our analysis of salaries and benefits below.

**Figure 6: Salaries and Benefits as a Percentage of Total Expenses**



## Explanation of Higher Salaries and Benefits

75 There are several factors that contribute to Red Hill's higher than peer group overall employee-related costs. These include:

### 1. Higher hourly wages

76 A study published in 2024 titled "Knowing Our Numbers: A Provincial Study with a Local Lens on the Early Childhood Education Workforce in Ontario"<sup>8</sup> shows (in Table 3 below) that public sector Registered Early Childhood Educators (RECEs) average hourly wage rates are the highest across the system.

<sup>8</sup> Akbari, E., McCuaig, K., Schurter, M. Varmuza, P., Akbari, S., Mudie, S. (2024). *Knowing Our Numbers: A Provincial Study with a Local Lens on the Early Childhood Education Workforce in Ontario*. The City of Hamilton.

**Table 3: Hourly Wage Rate for Centre-based Staff in Hamilton**

| Provider Type | Non-RECE | RECE    |
|---------------|----------|---------|
| For-Profit    | \$22.68  | \$23.53 |
| Non-Profit    | \$22.85  | \$25.04 |
| Public        | N/A      | \$28.50 |
| Average       | \$22.82  | \$24.85 |

Note: all averages are weighted.

77 In the above Table 3 extracted from the Provincial Study the Hourly Wage Rate for Centre-based Staff in Hamilton shows that wages of RECEs are higher than wages of Non-RECE staff across all provider types, and that Public wages are higher than For-Profit, Non-Profit, and the system average wage rates. The hourly difference ranges from approximately \$3.50 to \$5.80, which equates to approximately \$6 – 10K annually per employee (based on a 35-hour work week).

78 Red Hill's hourly wage rates for RECE's in 2024 ranged from \$35.34 to \$40.16, depending on seniority, compared to the 2024 RECE rates for its peer group of \$21.25 to \$31.56 (including funding top up from SSM).

## **2. An educator complement of 100% Registered ECEs (RECEs)**

79 Red Hill's ratio of RECEs compounds the financial impact of higher hourly wages described above. Ontario's Ministry of Education sets the proportion of employees that must be qualified employees in *O. Reg. 137/15*<sup>9</sup>. In Red Hill's case, eight (8) of their fourteen required staff must be qualified. They are exceeding that requirement by having 100% qualified as RECE's, which raises the cost of staffing overall, compared to other providers that have a mix.

80 The value of educators who are registered includes professional regulation through the College of Early Childhood Educators (College) in Ontario, which is the only self-regulatory body for early childhood education in Canada<sup>10</sup>. The College hosts a Public Register which members of the public can conduct searches on anyone who is

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<sup>9</sup> Province of Ontario, Ministry of Education Child Care and Early Years Act, 2014 ONTARIO REGULATION 137/15 GENERAL, Schedule 1 Requirements re: child care centres

<sup>10</sup> <https://www.college-ece.ca/about-us/purpose-and-mandate/>

a member to check their registration status and verify if there are any restrictions on their practice. Simply put, parents can verify that educators caring for their children are in good standing with a regulatory body.

### **3. Higher level of Special Needs Resourcing (SNR)**

- 81 Red Hill has two dedicated on-site full-time Resource Teachers who focus on providing specialized support to children and families in need. Other operators in Hamilton's system only have access to a shared pool of resources.
- 82 The Province provides funding for special needs resources that can be applied for, which Red Hill receives to offset the additional cost; in contrast, the shared pool of resources is funded by the System Manager rather than individual operators.
- 83 The value of having resources on-site includes opportunities for increased time working directly with children, increased potential for frequent progress monitoring, daily contact with classroom educators, and the availability to speak directly with parents about their children.

### **4. Higher level of employee benefits**

- 84 Employee benefits are higher for Red Hill than that of similar operators. Pensions and extended health benefits are the key drivers. We found that benefits as a percent of salary for the Red Hill was approximately 29% compared to the peer group's 12%.

## **Administration/Occupancy Expenses**

- 85 The second group of factors that differentiates Red Hill's overall expenses compared with similar operators fall in the administration and occupancy cost categories. Similar operators show average annual administration costs of 6% of total expenses in comparison with Red Hill's being 1%. Occupancy costs are on average 14% annually, compared to with 5% for Red Hill. In other words, the peer group pays a lot more for administration and occupancy (e.g. rent, utilities and maintenance etc.).
- 86 Factors contributing to the differences were found in costs absorbed by broader City of Hamilton supports/contributions and therefore not explicitly tracked in Red Hill's financial data. Similar operators submit financial statements annually that show expenses for audit costs, bookkeeping, depreciation expenses, legal fees, payroll processing, property taxes, and rent. In some cases, Red Hill receives these services without cost, or at a partial cost, in contrast to similar operators who pay full cost. Examples include:

- This value for money audit; which is being provided by the OAG as part of its mandate with the City of Hamilton. It will not show as a direct cost in Red Hill's financial records.
- Finance and administration support from Corporate Services, which Red Hill receives, but is paid for by the City rather than by Red Hill directly.
- Rent, which Red Hill does not pay; it operates out of a City-owned building, and although "facilities costs" show in their financial records, mortgage or rent expenses do not. These are common expenses for other operators.

87 Using the average peer group costs for these "missing" or incomplete service costs for Red Hill, we estimated it would add another \$110K to the "bottom line" expense of RH.

## Operational Efficiency

### Are capacity rates optimized?

88 The Ministry of Education approves all licensed capacities under the *Early Years and Child Care Act (EEYCA)*, 2014. The *Act* details age categories, age range of each category, along with prescribed ratio of employees to children, maximum number of children in a group, and the proportion of employees that must be qualified employees.

- Licensed capacity is the maximum number of children in each age category allowed to be receiving child care, based on available physical space.
- Operating capacity is the number of child care spaces an Operator is currently staffed for, in accordance with staffing ratios prescribed in the *EEYCA*, 2014.
- Vacancies represent unoccupied spaces that an Operator could enroll children into based on having adequate staff to operate the space.

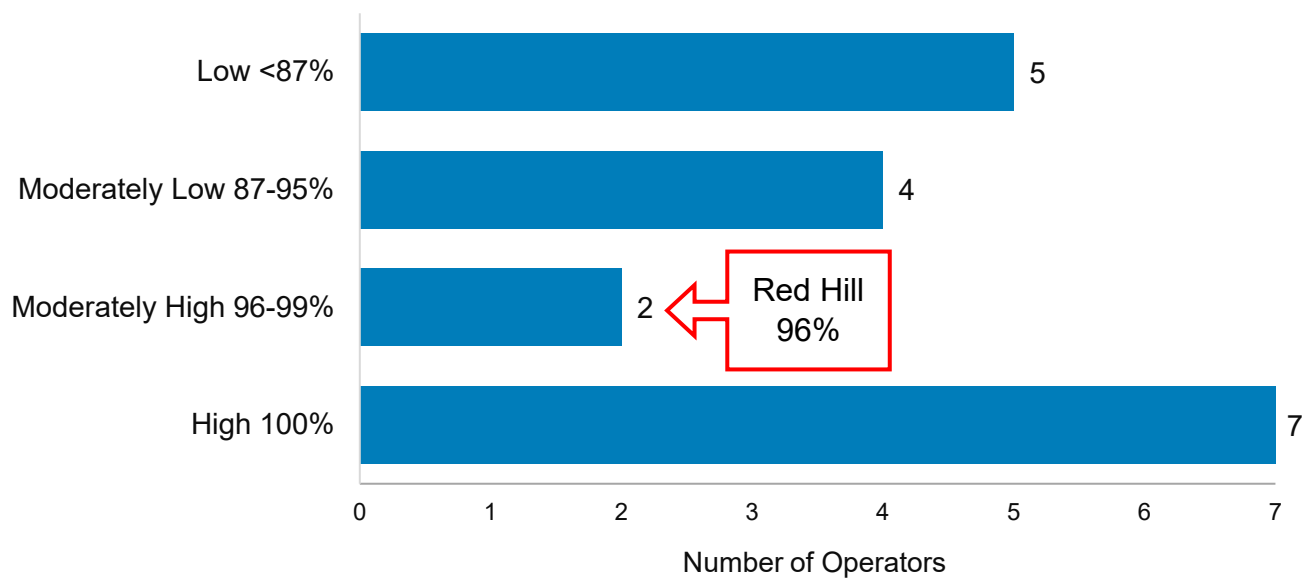
89 Operators are required to report licensed and operating capacities, vacancies, and wait list numbers monthly.

90 To determine Red Hill's Utilization Rate, we divided operating capacity by licensed capacity. This measure provides a percentage of space deemed 'licensed' for a child that is being used.

91 Red Hill has an average annual Utilization Rate of 96%. Figure 7 below shows them in the second highest quartile of utilization rates in comparison with similar Operators.



**Figure 7: Utilization Rate**



- 92 Utilization rates provide valuable insight when used in conjunction with wait list data. Operators are required to keep records (as per O. Reg. 137/15) of people who request one of their spaces if a space is not available when the request is made. Operators provide wait list numbers monthly when reporting other capacity-related information. Table 4 below shows the number of centre-based child care spaces on wait lists throughout Hamilton as of December 2024.
- 93 Since utilization rate calculates the percent of licensed spaces being used (operated in), the inverse gives the percent of spaces not being used, or the 'under' utilized spaces. Although licensed and operating spaces are measured differently - licensed by physical space and operating by available staff - there is inherently some potential to reduce wait list counts by increasing utilization rates.
- 94 The information presented in Figure 7 is based on data for 2024, outside of the audit timeline; since Red Hill has a high utilization rate of 96%, their underutilized number of spaces is low (4). They may not be able to alleviate much of the waitlist pressures being experienced in Hamilton, however, wait list counts in the context of underutilized spaces show that increasing utilization rates has the potential to accommodate those on a wait list.

**Table 4: Number of Centre-Based Child Care Spaces on Wait Lists throughout Hamilton (as of December 2024)**

|                                                      | Infant | Toddler | Preschool |
|------------------------------------------------------|--------|---------|-----------|
| <b>Waitlist<br/>(as of December 2024)</b>            | 729    | 5,902   | 4,167     |
| <b>2024 Average Monthly<br/>Underutilized Spaces</b> | 171    | 559     | 1,412     |
| <b>Underutilized Spaces as<br/>a % of Waitlist</b>   | 23%    | 9%      | 34%       |

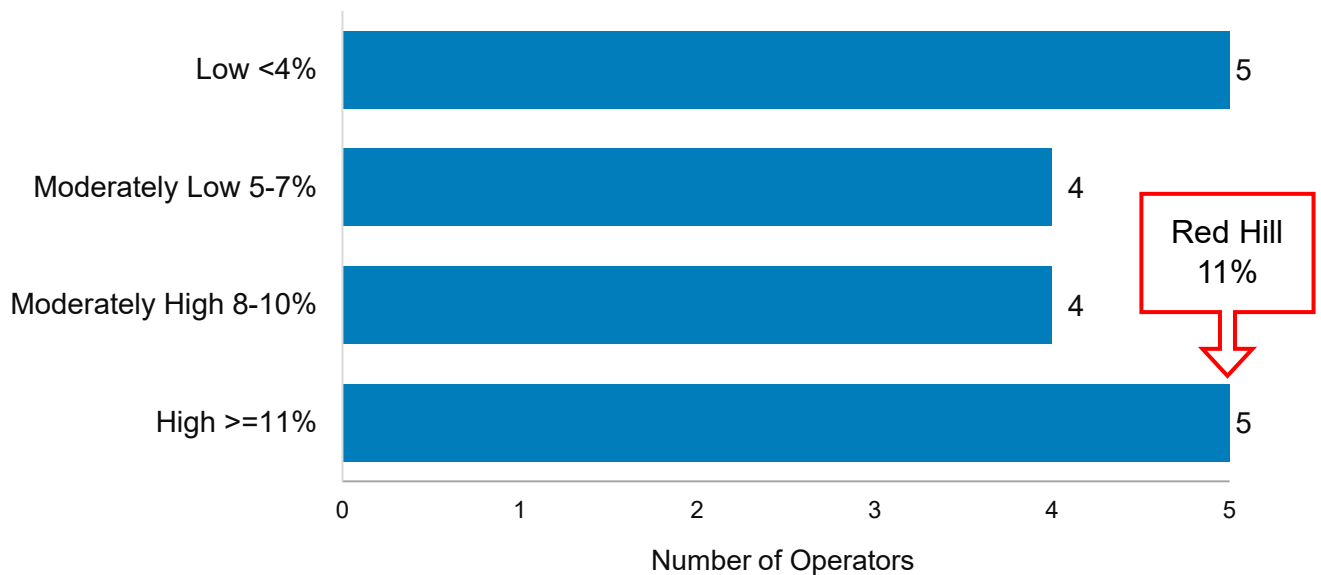
The Toddler age group was experiencing the greatest wait list pressure at the end of 2024, with almost 6,000 children on wait lists and less than 10% of underutilized licensed spaces.

- 95 Another consideration when evaluating operational efficiency is vacancy rate; vacancies represent the portion of operating capacity that is empty. It means that an operator is staffed adequately for their operating capacity, but not operating to its fullest potential. The Ministry of Education sets parameters around Early Learning and Child Care (ELCC) targets in its annual Service Management and Funding Guideline<sup>11</sup> to ensure that funding amounts align with the *actual* number of children being cared for. “Operating capacity”, as used throughout this report, represents an operator’s ELCC service target. The Funding Guideline describes not meeting a target as “10% or more and 10 children or more in the aggregate”; both conditions must be met to deem a target as not being met. An operator’s funding entitlement will be reduced to reflect the underachievement.
- 96 Red Hill experienced an average annual vacancy rate of 11%, which is slightly above the Ministry’s target, however as it is presented as a multi-year average, we cannot assess it directly against the target. Notwithstanding this, vacancy rate has potential to be an effective measure of efficiency, highlighting ‘potential’ capacity since it represents underutilized space.
- 97 Figure 8 shows Red Hill in comparison with similar operators. Their presence in the highest quartile, reporting an 11% average annual vacancy rate, suggests an

<sup>11</sup> Ontario Child Care and EarlyON Child and Family Centres Service Management and Funding Guideline 2024, “ELCC Targets, page 34”

opportunity to pursue a lower vacancy rate as a measurable continuous improvement effort.

**Figure 8: Average Annual Vacancy Rate**



- 98 Red Hill had a consistent licensed capacity of 97 and operating capacity of 93 during the period analyzed (apart from Ministry-directed temporary restrictions during COVID). They recently converted former office space into program space, creating additional operating space. Prior to the conversion, Red Hill was restricted to their current licensed age group mix, classroom capacities, and maximum group sizes. However, the increase in programming space presents an opportunity to evaluate options to achieve a 100% utilization rate and possibly increase licensed capacity.

### **Are staffing ratios and scheduling practices efficient?**

- 99 The OAG finds that program staffing ratios align with legislative requirements; Red Hill posts the number of children per educator on their landing page of the City's website.
- 100 A review of daily and weekly schedules demonstrated that RECEs spend 90% of their time providing direct care to children, with 10% of their week reserved for program and classroom planning.

101 Resource Teachers provide coverage for educators during their allotted planning times to ensure staff-to-child ratios are maintained.

**Is there a staff recruitment and retention strategy?**

102 Staff recruitment is undertaken on an as-needed basis; a formal recruitment and retention strategy specific for Red Hill is not in place. Red Hill relies on support from the City’s corporate Human Resources Division for recruitment efforts.

103 The study mentioned above, *Knowing our Numbers*<sup>12</sup>, collected data on individuals’ years of experience showing that “participants who work in for-profit programs have the fewest years of experience. In contrast, public programs tend to have more experienced educators.” The table below has been recreated to maintain readability. It shows the years of experience by Operator Type. The mean level of experience for Hamilton’s public provider (Red Hill) was significantly higher than the other operators.

**Table 5: Years of Experience**

| Operator Type | Mean | 25 <sup>th</sup> Percentile | Median | 75 <sup>th</sup> Percentile |
|---------------|------|-----------------------------|--------|-----------------------------|
| For-Profit    | 9.0  | 2.0                         | 6.0    | 13.0                        |
| Non-Profit    | 10.4 | 3.0                         | 7.0    | 15.0                        |
| Public        | 16.9 | 7.0                         | 15.0   | 28.0                        |

Note: the study received responses from 844 individuals working in early education and child care services in the City of Hamilton.

**Program Effectiveness**

**What action has Red Hill Taken to Support Canada – Ontario CWELCC Agreement Priorities (Affordability, Access, Quality, and Inclusivity)?**

104 The Ministry of Education defines a child with special needs as “a child whose cognitive, physical, social, emotional or communicative needs, or whose needs

<sup>12</sup> Akbari, E., McCuaig, K., Schurter, M. Varmuza, P., Akbari, S., Mudie, S. (2024). *Knowing Our Numbers: A Provincial Study with a Local Lens on the Early Childhood Education Workforce in Ontario. The City of Hamilton.*

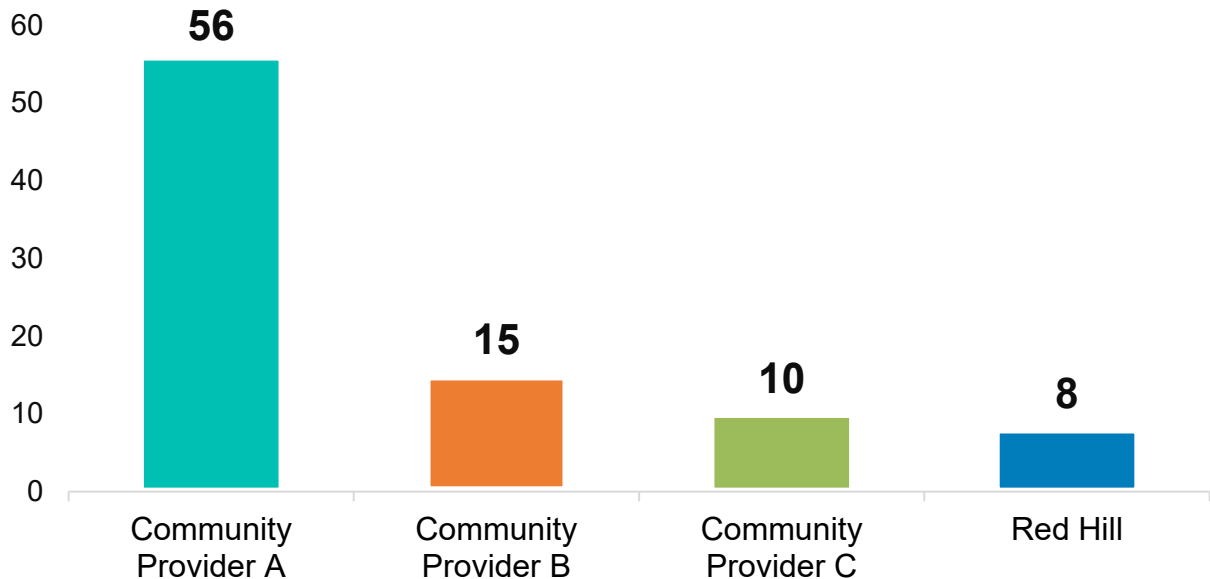
relating to overall development, are of such a nature that additional supports are required for the child.” Equitable access for children with special needs is one of the CWELCC system priorities, with minimum thresholds prescribed for System Service Managers.

- 105 Red Hill has two (2) full-time Resource Teachers dedicated to providing special needs resourcing (SNR). Other Operators in Hamilton’s Service System rely on third party Operators for SNR.
- 106 To illustrate what two (2) full-time Resource Teachers represents in a measurable context, we can look to the Province of Ontario’s agreement with the Government of Canada, the *Canada-Ontario Canada-wide Early Learning and Child Care Agreement – 2021 to 2026* (“The Agreement”), which lists funding for special needs resources as a priority for providing inclusive child care. The Agreement is written more with a system-wide focus rather than individual operators, however, a target to “maintain or increase current level of 4.1% of total provincial child care allocation spent on Special Needs Resourcing (SNR)<sup>13</sup>”. To provide context, Red Hill received SNR funding in 2023 accounting for 8.4% of their total funding allotment, more than double the target in The Agreement.
- 107 Figure 9 shows the average number of children receiving special needs resources (SNR) per month, for every one (1) full-time equivalent (FTE) SNR staff resource, essentially providing the average monthly caseload handled by one full-time employee. Note: for special needs resourcing (SNR) comparisons, Red Hill is compared with the three (3) other SNR community providers as opposed to the 17 similar operators.

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<sup>13</sup> Canada – Ontario Canada-wide Early Learning and Child Care Agreement, Annex 2: Ontario’s action plan for fiscal year 2022 to 2023 and fiscal year 2023 to 2024, Section 4.5 Priority Areas, Subsection 4.5.3 Priority area #3: inclusion, Table 18c: Priority area – inclusion. <https://www.canada.ca/en/early-learning-child-care-agreement/agreements-provinces-territories/ontario-canada-wide-2021.html>

**Figure 9: Average Special Needs Resources Caseload (per month)**

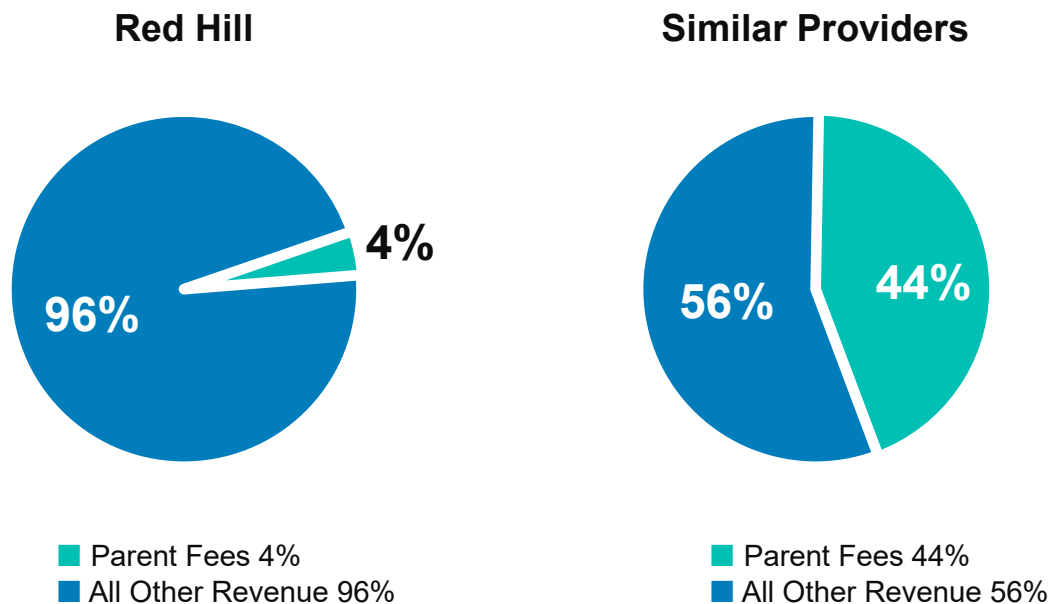


108 The nature of an individual child's support needs, and subsequently the level and intensity of staff support required, can vary greatly; reviewing a sample of SNR case files revealed complex situations that would be difficult to quantify an ideal number of children on a given staff resource's caseload that would provide an optimal balance of effort required and benefits realized. Notwithstanding the challenge this may present, the average monthly number of children receiving support from the four (4) providers shown in Figure 9 suggest that while Red Hill may provide more direct support per child, two (2) of the remaining three (3) providers are able to support more children per staff resource. Opportunities may exist to increase efficiency or decrease inefficiency enough to see Red Hill increase the number of children supported without compromising quality of care.

109 Revenue source data in Figure 10 below shows that Red Hill relied on parent fees for revenue much less than similar operators. This is changing under the Canada-Ontario CWELCC Agreement as the Federal and Provincial governments phase-in their affordability strategy; however, the pre-CWELCC portion of the study period (2019, 2020, and 2021) shows Red Hill relied on parent fees for 4% of its total revenue compared to similar operators' 44% (on average) reliance on parent fees. This suggests that Red Hill provided child care to a higher proportion of families receiving a fee subsidy. Access to child care for low income children remains a priority area in the Canada-Ontario CWELCC Agreement; Red Hill was supporting this priority before it was formally announced by the Federal and Provincial governments.



**Figure 10: Revenue Mix – Parent Fees (%)**



### **Are waitlist and intake policies fair and transparent?**

- 110 The *Early Years and Child Care Act (OYCCA)*, 2014 requires (via O. Reg. 137/15, Section 75.1) that licensees with a wait list must have written policies/procedures that explain how the licensee determines the order in which children on the list are offered admission and that a child's place on the list be made available if requested, maintaining privacy and confidentiality of the children on the list.
- 111 The OAG finds that Red Hill's Wait List policy is compliant with the *Act*.

## **Quality of Services**

### **What differentiates Red Hill from other operators?**

- 112 Our research did not uncover any generally-accepted list of quality indicators to assess Red Hill against. The most common approach to overall quality appears to rely on parent satisfaction or "client ratings". For Hamilton the City's Dashboard shows ratings for the program as a whole, with 2022 reporting showing 67% of clients rating service as excellent. The nature of the audience (young children) proves measuring comprehensive outcomes difficult; quality indicators tend to come in the

form of outputs or qualitative factors in the literature we reviewed. Many of these aspects have been touched upon in the report, albeit in the context of a cost driver rather than a quality benefit. Aspects such as wage rates, employee benefits, staff qualifications, full-time employment, training opportunities, years of service, and attention to system priorities such as access and inclusion, are cited in studies (including the ones referenced in the report) as indicative of the 'quality of care' being provided. Red Hill shows a high investment in these aspects across the five years of data we analyzed. The comparative analysis shows how Red Hill is in the highest quartile of comparators from a cost point of view. However, value for money requires consideration of the benefits being obtained for the cost. That necessarily involves evaluation of quality and other factors, sufficient to understand the cost benefit trade-off. Thus, there are numerous qualitative factors to be considered.

113 In that regard, there are additional 'quality-related' aspects of Red Hill's approach that are worth mentioning. They are aspects that help Red Hill to ensure they provide the highest standards of care, as well as contribute to the child care sector. They include:

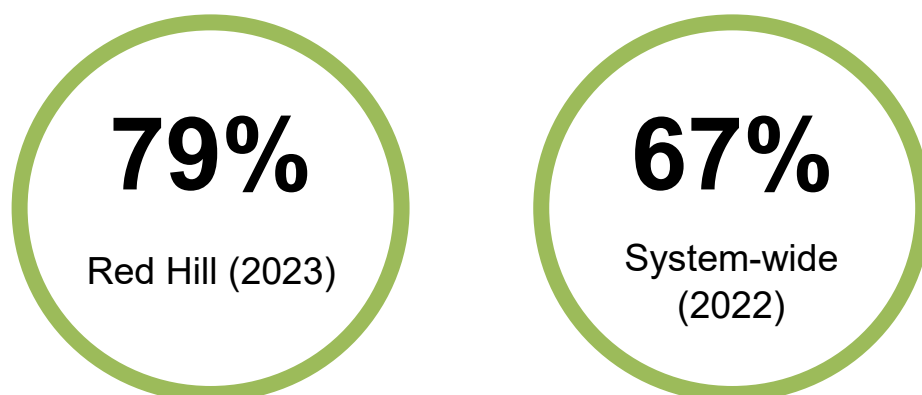
- **Emergent Curriculum:** a form of collaborative inquiry, which bases learning experiences on children's interests and ideas, remaining flexible to follow children's lead in learning, which was introduced in *How Does Learning Happen? Ontario's Pedagogy for the Early Years*.
- **Student Placements:** in collaboration with local post-secondary institutions McMaster University and Mohawk College, Red Hill provides placements for students studying to become Resource Teachers, as the only Centre in Hamilton with full-time, on-site special needs resources.
- **Community Partnerships:** partnered with the Ron Joyce Children's Health Centre (RJCHC), which is a "state-of-the-art facility", as a site of McMaster Children's Hospital (MCH) that offers "outpatient services focused on child rehabilitation and developmental, behavioural and mental health." RJCHC provides tangible and in-kind supports, including learning/training opportunities for Red Hill staff.
- **"Wrap-Around" Care:** as a part of the City of Hamilton, Red Hill benefits from inter-Departmental relationships with other support teams; this helps them direct families to other contacts when needs arise.

## Is parent satisfaction comparable to non-municipal Operators?

114 As a final word on quality, one measurable number that demonstrates Red Hill's quality is parent satisfaction. Parents are offered an opportunity to reflect on experiences with their respective child care operators. The published combined results for all operators in the Hamilton area show the percent of clients rating child care services as 'excellent' to be 67% (City of Hamilton dashboard, 2022) whereas Red Hill was rated 'excellent' by 79% of respondents through to the 2023 Children's

and Community Services Division Client Survey and 93% of respondents rated their services as ‘very good’ or ‘excellent’, and 0% rating as poor.

**Figure 11: Service Rated as “Excellent” by Operator Type**



### **Other Opportunities for Quality/Continuous Improvement Work**

- 115 The Childrens and Community Services Division has child care “system quality analyst” positions that are physically located at Red Hill. Throughout the audit process, Division leadership spoke of how this physical proximity helps position Red Hill (informally) as a ‘best-in-class’ directly operated child care centre that exemplifies excellence for other operators.
- 116 The concept of having a directly operated centre serving as a best-in-class demonstrator, incubator of better practices, and centre of excellence is not without precedent. In the business world a company will sometimes retain a “company store” for such purposes. However, OAG found no formal documentation of this ‘best-in-class’ concept. It may be a significant opportunity for Red Hill to develop this idea. Red Hill could help in the development of service levels, data analysis, improving the efficiency of data collection and analysis. They could leverage their existing partnerships with local organizations (Mohawk College, Ron Joyce Children’s Centre, etc.) to explore emerging trends and/or develop and implement best practices in collaboration with the Province and leading researchers. Results could be tailored to local Hamilton needs, tested to collect data regarding their effectiveness, and once refined, rolled out to other operators across Hamilton. In its SSM role, Children’s Services could collect data to monitor effectiveness and impact. This would be evidence-based decision making in action.

## Key Performance Indicators (KPIs)

- 117 In general, we found the system of performance indicators, performance reporting and tracking to be rudimentary. There seemed to be a lack of generally accepted industry wide *performance* measures for Red Hill to adopt. This does not seem to be exclusive to Red Hill; the sector struggles with measuring outcomes, a result of the challenges associated with evaluating early childhood development and associated benefits. The first formal child development evaluation that we came across in our research is the Early Development Instrument (EDI), which is administered in kindergarten. This instrument lends itself to becoming a benchmark for future evaluations. In the absence of recognized outcome measures we would have expected a more mature performance evaluation regime - a framework of service levels that are developed and established based on their association or correlation with desired outcomes. Hamilton has only three rudimentary measures being reported to the public at a system wide level - cost (to parents) of services, accessibility and parent satisfaction. In our view a more comprehensive set of benchmarks and service levels should be developed and published that provide comparative results for operators and which provide a more fulsome answer to the question of value for money being achieved - both at the operator and system level. Red Hill is encouraged to experiment with, and advocate to the Province for reliable measures and service levels that can be used to assess the value of an operator's approach/practices in relation to the cost of providing said approach/practices.

## Compliance

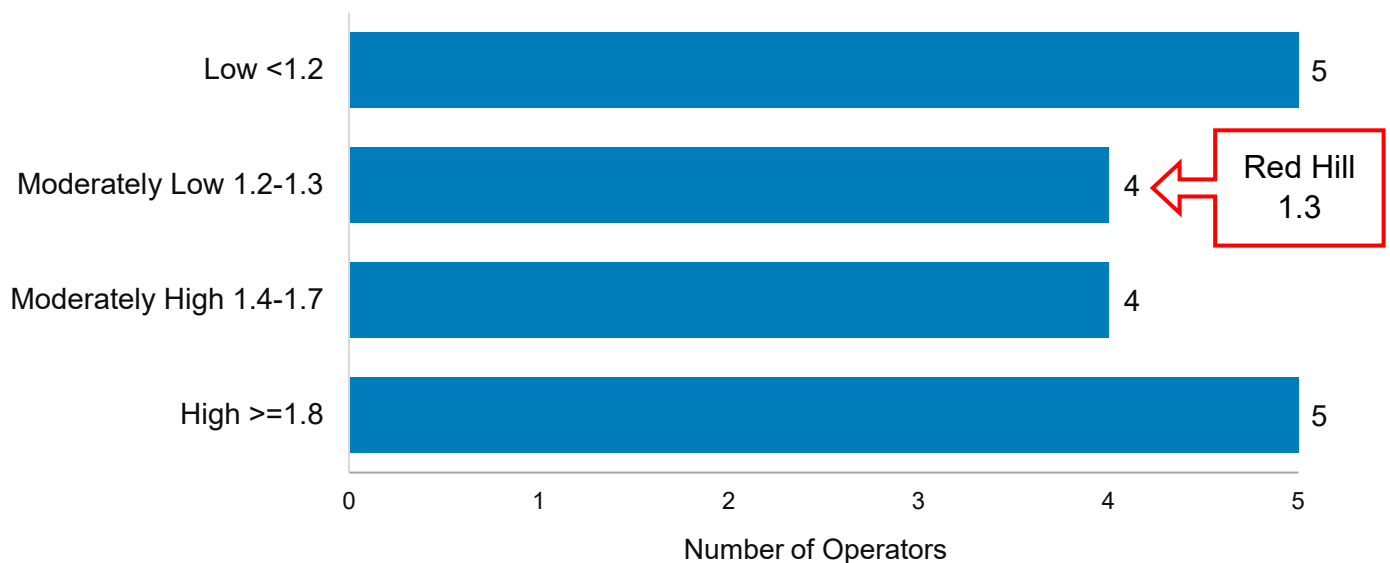
### Have the CWELCC fee reductions been implemented?

- 118 Communication to parents confirms that Red Hill opted-in to the CWELCC program with details outlining the 25% discount retroactive to April 1, 2022.
- 119 Communication to child care Operators who opted into CWELCC provide program updates including fee reduction requirements, deadlines, and funding being provided to reimburse families for applicable retroactive amounts.
- 120 Two key reductions were made during the period scoped in this audit:
- April 1, 2022: 25% fee reduction for children under the age 6
  - December 31, 2022: further fee reduction up to 37% (50% of 2022 fees)
- 121 Transaction listings confirm receipt of CWELCC funding by Red Hill.

## Is Red Hill Compliant with Legislative Requirements?

- 122 A sample of legislative requirements were spot-checked to confirm that Red Hill has processes in place to ensure compliance. Spot checks included: outdoor equipment inspections (daily), menus, individual support plans, toy cleaning schedule, fire drills (monthly), medical information, documented parental involvement (SNR), ECE respect for children, inclusive educational materials.
- 123 In addition to spot-checking regulatory compliance first-hand, Ministry of Education inspection data from the past three years was reviewed to see how Red Hill compares to similar Operators. They have been inspected by the Ministry of Education six (6) times in the past three years, with an average of 1.3 “requirements not met at inspection”, per inspection, placing them in the second quartile of “not mets” meaning they have moderately low instances of requirements not being met. Figure 12 illustrates that the range of results is narrow, indicated by tight quartile thresholds. The “Low” and “Moderately Low” groups are much closer together than the “Moderately High” and “High” groups. Red Hill’s average is much closer to “Low” than it is to “High”, slightly better than the median.

**Figure 12: Average Requirements Not Met At Inspections**



## Overall Findings

- 124 Red Hill delivers services at a higher cost relative to its peers, while at the same time performing well on key measures such as utilization of its licensed spaces, regulatory compliance, parent satisfaction, and investment in system priorities (accessibility, special needs resourcing, and inclusivity). Higher salaries and benefits are the main driver of the cost differential.
- 125 Red Hill also provides services at levels above legislated requirements such as 100% Registered program staff (ECEs) and full-time Special Needs Resourcing, along with sustaining higher average hourly wage rates and extended health and dental benefits that are attractive for staff recruitment and retention. The average years of experience of staff is significantly higher than peers.
- 126 Research conducted in the course of this audit, and a detailed review of Hamilton's performance measurement regime did not yield a set of standard or generally accepted performance indicators that can reliably measure outcomes or even service levels that can reasonably be associated with desired outcomes.
- 127 Our approach strived to use available data in different ways to better express value for money; requirements not met per inspection, cost per required program staff, revenue sources as a percentage of overall revenue – these are purposely not assessed in isolation and are best assessed together. Measures of this type would be helpful when evaluating performance of individual operators across the system.
- 128 Currently, there is not a high level of maturity regarding service levels and performance measurement tools that are available to the City of Hamilton, indeed the industry, to assess value for money on an ongoing basis. Policy makers, through academic research studies, program evaluations, etc. need to make those linkages between service level performance and outcome measures. It is our presumption that it is ultimately up to the Province to set the service standards, performance expectations and outcomes measures, but that Hamilton can be a strong advocate and participant in their development.
- 129 However, in our view, the establishment of well-defined service levels (beyond the current staff-to-child ratios) that can be linked to outcomes and used to reliably assess value for money on an ongoing basis is an imperative – one that would help operators, system managers, the Province, the public and stakeholders understand the performance of operators and the program as a whole.
- 130 Red Hill derives significant financial support from the City's tax levy and its internal support services so as to augment Provincial/Federal funding and maintain higher (relative) costs and a higher level of service. However, funding is generally moving away from a revenue replacement approach toward a benchmarking and standard costing regime. This will inherently invite greater scrutiny of operators' ability to meet costing benchmarks and engender expectations for greater discipline in the management of costs. This may present a risk to sustaining the higher level of

service Red Hill enjoys and/or carry implications in terms of the impact of City funding on Provincial and Federal funding.

## Conclusion

- 131 On the question of whether services could be offered as or more effectively by another operator, with a view to obtaining improved value for money, we found there were opportunities for improvement that Red Hill should address, and a higher cost structure than other providers. However, 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. We have 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.
- 132 The OAG would like to thank the staff from the Childrens and Community Services Division and the Finance and Administration staff who we interviewed and provided information for this audit. We look forward to following up with management in the future to see the progress of their action plans and their impact on improving value for money in service delivery at Red Hill Family Centre.

## Recommendations

- 133 Please refer to Appendix "B" to Report AUD25007 for a list of recommendations and the related Management Responses that will address the key audit findings.



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