

Child Care Parent Fee Subsidies Explained (and why they are not the solution to making child care affordable for all)

The OECD reviews suggest that direct public funding of services versus subsidies to parents brings, in the majority of countries reviewed, more effective control, advantages of scale, better national quality, more effective training for educators and a higher degree of equity in access and participation than parent-consumer subsidy models (OECD, 2006: 114).

Today, countries with the most successful child care systems fund services through operational (supply-side) funding. However, this is relatively limited in Canada, outside of Quebec and, to some extent, BC, Alberta, Manitoba and Prince Edward Island. In most provinces and territories, base-funding in the form of operating, wage or "quality" grants covers only a relatively small portion of operating costs. Thus, most Canadian child care services rely heavily on funding from parent fees. This is why the average cost of child care is high and out of the reach of many parents.

Fee subsidies for lower income families play a key role in child care funding arrangements¹. Fee subsidies do not fund the program as a whole but replace all or part of the individual families' fee. In Canada, the fee subsidies that parents are entitled to are paid by the government to the parents' regulated child care provider.

History

The current provincial/territorial fee subsidy systems originate from the (former) Canada Assistance Plan (CAP). CAP was Canada's cost-shared national welfare program, first introduced in 1966 and eliminated in 1996 when it became part of the Canada Health and Social Transfer² (CHST). CAP treated child care as a residual³, targeted welfare service for the lowest income individuals deemed to be "in need" or to prevent poverty ("likelihood of need"). It required provinces/territories to assess individual family eligibility using either a needs test or an income test. All jurisdictions participated in CAP's child care provisions, each developing a fee subsidy approach that met the CAP guidelines. More than 20 years after CAP's termination, these are still in place, essentially unchanged.

How Canada's fee subsidies work

Only Quebec (which also sets province-wide parent fees) does not use parent fee subsidies at all. Manitoba and PEI, and more recently BC and Alberta (in a more limited way), use a structured approach

¹ Quebec stopped using fee subsidies when it shifted to operational funding in 2000. Both Manitoba and Prince Edward have adopted an integrated mixed approach combining base funding and fee subsidies.

² The CHST, a block fund, was then broken down into two programs, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST) in XXXX.

³ A residual approach to social welfare implies a view that that most people will be able to help themselves and that government's role should be limited to situations when normal mechanisms (market, family, church or charity) leave some individuals out.

to support regulated services with operational funding in combination with set parent fees. The cost of these parent fees is offset by a fee subsidy for those low-income parents who qualify.

The remaining jurisdictions all provide relatively limited operational funding, allow the market to determine parent fees and pay fee subsidies directly to programs to cover fees on behalf of eligible subsidized parents.

Subsidies are inadequate

Most provinces and territories guarantee a subsidy to all eligible parents who can secure a regulated space⁴ but do not cover the full fee, even for a fully subsidized parent. These jurisdictions pay set “subsidy rates”, which may be considerably lower than prevailing market fees. Ontario’s approach is somewhat different from the others: Ontario will cover the full market fee for eligible parents based on an income test that calculates user fees per subsidized family, not per child. Eligibility does not guarantee a subsidy, as there are long subsidy waitlists (as well as separate centre waitlists for a space).

Fee subsidies are usually restricted to employed parents or those in education or training programs, although there are instances in which subsidies may cover fees regardless of parents' activities.

Not being able to afford the fee does not mean that the family is eligible for a fee subsidy. Middle or even modest income families are usually not eligible, depending on the jurisdiction. Within the overall eligibility criteria, family income and composition determine the amount of the subsidy.

Fee subsidies fail low income parents too

However, Canada's fee subsidy systems fail to enable even the low-income families for whom they're intended to afford child care. According to a 2016 study by MacDonald and Friendly, out-of-pocket costs for a sample low-income family (\$31,000) over and beyond a provincial-specific fee subsidy were almost \$500/month/ child in Saskatoon and Calgary (as low as \$90/month/ family in all Ontario cities. However, Ontario families face long subsidy lists: Toronto's typically reaches 15,000 - 20,000 in most months.

What is needed instead

The evidence about how best to fund child care shows that funding services directly in planned, publicly-managed systems while charging parents affordable fees usually yields much better access and quality results than individual parent-subsidy schemes.

⁴ With the exception of BC, which also subsidizes children in unregulated arrangements