

Child Care Funding

Child Care Funding Formula Technical Paper

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Introduction

The Government is committed to introducing a quality, accessible and coordinated early learning and child care system for all children, no matter where they live in Ontario. In June 2012, the Government released the [Modernizing Child Care in Ontario: Sharing Conversations, Strengthening Partnerships, Working Together](#) discussion paper. In addition and as part of the ongoing commitment to the sector, the Government has along with its child care delivery partners, developed a new funding formula for child care in the province. The new formula is transparent and evidence-based, and relies on publicly-available data to drive an equitable funding allocation to child care service managers across the province.

Background

The objective of the new funding formula is to modernize the approach to operating funding, beginning in 2013. The new funding formula is a more transparent and equitable approach to funding that responds to demand for services, helps stabilize fees, and improves reliability of child care, to better meet the needs of child care operators and parents.

The Government is also providing investments in 2014 and 2015 as a result of the \$242M committed to child care in the 2012 Budget.

In addition, one-time mitigation funding will be provided to Consolidated Municipal Service Managers (CMSMs) or District Social Services Administration Boards (DSSABs) whose ongoing funding decreases under the new formula, to ensure that for nearly the next four years no CMSM/DSSAB will see a reduction compared to their 2012 allocation.

Under the terms of the Memorandum of Understanding between the Association of Municipalities of Ontario (AMO) and the Province of Ontario, and the Toronto-Ontario Cooperation and Consultation Agreement (TOCCA), the Ministry of Education along with municipal members of the Child Care Funding Formula Working Group (CCFFWG) endorsed the following broad objectives to guide the development of the new funding formula:

- **Efficiency:** Informed by evidence and experience to address inequities in current funding allocations and distribute and simplify funding to maximize its impact on the sector;
- **Responsiveness:** Based on up-to-date data, allows for changes in the sector, and responds to the need for services;
- **Predictable and Transparent:** Service managers are able to estimate their future years budgets with a reasonable degree of confidence;

- **Quality:** support consistency in approach, access for families and provides high quality programs for children; and
- **Accountability:** Use enveloping and reporting requirements which support funding objectives.

Context

- The current child care funding formula is out-dated (based on historical allocations from as far back as 1998) and unreflective of demand. As a result of using data elements which are over 20 years old, the current formula does not respond to changing demographics and pressures in growth areas.
- In addition, the current funding framework is complex, administratively burdensome, and lacks transparency and accountability.
- All of these structural components make it difficult to use resources effectively, particularly as the child care system addresses the transition pressures that follow the full implementation of the Full-Day Kindergarten program.
- These structural problems also impair the government's ability to communicate results in addressing these challenges.

Purpose

In order to support greater transparency for system users, this paper contains details of the underlying formulas and other criteria that are being used to calculate the 2013 child care funding allocations.

The new funding formula is based on transparent data elements which are publicly available, such as Low Income Cut Off (LICO) indicators, Child Population, Level of Education Attainment and No Knowledge of an Official Language.

Overall Structure of the New Funding Formula

The new funding formula includes three main allocation components: Core Services Delivery, Special Purpose, and Capital. The majority of the funding will be allocated via the Core Services Delivery Allocation and is intended to provide stable operating funding to the child care sector. In response to the unique costs of providing services in certain areas and to certain target populations, a special purpose allocation is used to target funding to those areas. The Capital allocation is provided to assist CMSMs and DSSABs in maintaining and improving child care infrastructure.

| | | Projected Funding in 2013 \$ Millions |
|--|--|--|
| Core Services Delivery Allocation | <i>General Operating Fee Subsidy Ontario Works</i> | \$718.4 |
| Special Purpose | <i>Remote/Rural</i> | \$28.0 |
| | <i>Language</i> | \$50.0 |
| | <i>FDK Transition</i> | \$38.5 |
| | <i>Transformation</i> | \$7.5 |
| | <i>Cost of Living</i> | \$30.0 |
| | <i>Aboriginal</i> | \$2.0 |
| | <i>Capacity Building</i> | \$5.0 |
| | <i>Repair and Maintenance Utilization</i> | \$2.2 \$30.0 |
| Small Waterworks | | \$0.4 |
| Territories without Organization | | \$1.2 |
| Capital | <i>Retrofit</i> | \$8.8 |
| Total* | | \$922.1[†] |

* Funding for Small Water works and costs for child care in Territory without Municipal Organization will be allocated separately and will continue to be claims based, with notional allocations based on prior year claims.

† Please note that total may not sum due to rounding.

Core Services Delivery Allocation

The largest portion of funding – \$718.4 million or 78% of total funding – is flowed through the Core Services Delivery Allocation. The purpose of the Core Services Delivery Allocation is to support the availability of licensed child care for all parents and to assist eligible families with access to licensed/accredited child care and early childhood education programs.

The data elements included in calculating the distribution of this allocation are:

- 23.5 percent of the allocation is weighted based on population data (17 percent for children 0 to 3.8 years; 6.5 percent for children 3.9 to 12 years old). The weighting is based on the staffing ratios outlined in the Day Nurseries Act based on age groups;
- 66.5 percent is weighted based on Statistics Canada Low Income Cut Off (LICO) data which is an income threshold below which a family will likely devote a larger share of its income on the necessities of food, shelter and clothing than the average family;
- 5 percent is weighted based on Statistics Canada Level of Education Attainment data which measures the percentage of population with no certificate, diploma or degree; and
- 5 percent is weighted based on Ontario Works (OW) caseload data provided by the Ministry of Community and Social Services.

| Core Services Delivery Allocation Data Elements | Weighting Factor (%)* |
|--|------------------------------|
| Low Income Cut Off (LICO) data | 66.5% |
| 0 to 3.8 years (weighted)** | 17% |
| 3.9 to 12 years | 6.5% |
| Population Data – total | 23.5% |
| Level of Education Attainment | 5.0% |
| Ontario Works Caseload | 5.0% |

* Weighting factor is the proportion of funding for this grant attributed to this data element.

** Weighting is based on staffing ratios outlined in the Day Nurseries Act based on age groups. Please see page 13 for DNA requirements.

Each CMSM and DSSAB’s allocation is calculated by taking their total for the data element (e.g. 0 to 3.8 years) proportional to the provincial total (e.g. All 0 to 3.8 years). Funding for the Core Services Delivery Allocation provides a greater share of funding to service managers with the largest percentage of Low Income Cut Off (LICO) children.

The data elements above were selected because they are reliable, transparent (publicly available) measures of child care service demand and fee subsidy need.

Special Purpose Allocation

In recognition of the variable costs associated with providing child care across the province; and in response to feedback received from the CCFFWG, the new funding formula includes a special purpose allocation to supplement the Core Services Delivery Allocation. This funding reflects the unique local and regional costs of providing services in certain areas and to certain target populations. The Special Purpose Allocation includes the following eight components* :

- Rural/Remote Component – \$28 million,
- Language Component – \$50 million,
- FDK transition Component – \$38.5 million,
- Transformation Component – \$7.5 million,
- Cost of Living Component – \$30 million,
- Aboriginal Component – \$2 million,
- Capacity Building Component – \$5 million,
- Repairs and Maintenance Component - \$2.2 million, and
- Utilization Component – \$30 million.

The Special Purpose Allocation is projected to be \$193.2 million, or 21.0% of the total funding envelope for 2013.

Rural/Remote Component

The Rural/Remote Component recognizes the increased costs of providing child care services in rural areas and large geographic areas with highly dispersed populations. This component is based on two measures:

- Population density to determine the population dispersion rate within CMSMs and DSAABs. The more dispersed the population, the more costly it is for service providers to serve those areas. 20 percent of this funding is based on this measure. This measure is calculated by:
 - Land mass divided by total population, divided by the provincial total of this ratio.
- The Rural and Small Community Measure (RSCM) determines the proportion of the population that resides in rural areas or small communities. This measure was

* Funding for Small Water works and costs for child care in Territory without Municipal Organization will be allocated separately.

developed by the Ministry of Finance to help inform the Ontario Municipal Partnership Fund (OMPF). 80 percent of this component is allocated based on this measure. In addition, the Ministry has developed a step function to capture the unique issues facing communities that are both rural and located in northern Ontario with sparse populations. This was added for northern rural populations for all DSSABs and Greater Sudbury and the Muskoka CMSM . Northern rural populations are scaled by a factor of 3. This measure is calculated by:

- Total rural population divided by the total provincial rural population
- Northern rural populations are scaled up by a factor of three.

The Rural/Remote Component is projected to be \$28 million (3.0 percent of total funding envelope) in 2013.

| Location of Service Manager | Weighting Factor* |
|-----------------------------------|-------------------|
| Population Density | 20% |
| Rural and Small Community Measure | 80% |
| Northern Rural | 3 |
| Other Rural | 1 |

* Weighting factor is the proportion of funding for this grant attributed to this data element

Language Component

Recognizes the unique costs of providing child care services to those who speak French most often at home and those who have no knowledge of either official language. Within the component, 35 percent is weighted to those who speak French most often at home and 65 percent of the \$50 million is weighted to those who have no knowledge of either official language.

In addition, the Ministry has introduced a step function to capture the unique issues facing communities with large French-speaking populations. This measure is calculated by:

- Taking the total of those who speak French most often at home divided by the provincial total;
- Population greater than 150,000 that have more than 5 percent of their population identified as speaking French most often at home are scaled by a factor of two; and
- Population greater than 150,000 and have more than 20 percent of their population identified as speaking French most often at home.

The Language Component is projected to be \$50 million (5.4 percent of total funding envelope) in 2013.

| Estimated percentage of those who speak French most often at home | Weighting Factor* |
|--|--------------------------|
| No knowledge of either official language | 65% |
| Those that speak French most often at home | 35% |
| <i>between 0 and 4.9%</i> | <i>1</i> |
| <i>between 5.0% and 19.9%**</i> | <i>2</i> |
| <i>20% or more**</i> | <i>3</i> |

* Weighting factor is the proportion of funding for this grant attributed to this data element

** Total population must also be greater than 150,000

FDK Transition Component

Transition funding is made available to support the viability of the system during significant sector transformation with the implementation of Full-Day Kindergarten. Transition funding will support child care operators as they convert their programs to serve younger age groups and recognizes the unique costs of providing child care to younger age groups. Funding is allocated by using the percentage of 0 to 3.8 year old population in the province.

The FDK Transition Component is projected to be \$38.5 million (4.2 percent of total funding envelope) in 2013.

Transformation Component

Transformation funding will support the re-engineering of the child care sector over the next three years. This funding supports the Schools-First Child Care Retrofit Policy and Retrofit Capital allocation as it provides for one-time costs for non-profit child care operators who are involved in business transformation activities and/or require business transformation supports or who are re-locating to newly renovated school-based sites. Funding is allocated by using the percentage of 4 and 5 year old population in the province.

The Transformation Component is projected to be \$7.5 million (0.8 percent of total funding envelope) in 2013.

Cost of Living Component

Recognizes that there are higher costs of providing child care services in certain areas when compared to the provincial average. Funding is allocated based on data compiled in Statistics Canada's Survey of Household Spending, which uses a "basket of goods" to examine the differences in the cost of living based on population size. In addition, the Ministry included an additional data element to capture the unique issues facing communities with large 0 to 12 child populations (greater than 125,000).

The Cost of Living Component is projected to be \$30 million (2.7 percent of total funding envelope) in 2013. Within the Household Spending Survey factor within the allocation, there is an additional weighting based on population size, such that those with larger populations are weighted more heavily than those with smaller populations.

| Cost of Living Component | Weighting Factor |
|---|-------------------------|
| Household Spending Survey | 75% |
| <i>Population of 1,000 to 29,999</i> | <i>1</i> |
| <i>Population of 30,000 to 99,999</i> | <i>1.03</i> |
| <i>Population of 100,000 to 249,000</i> | <i>1.12</i> |
| <i>Population of 250,000 to 499,999</i> | <i>1.17</i> |
| <i>Population of 500,000 to 999,999</i> | <i>1.17</i> |
| <i>Population of 1,000,000 and over</i> | <i>1.27</i> |
| 0 to 12 year old population > 125,000 | 25% |

Aboriginal Component

Recognizes the unique costs of providing culturally appropriate child care services for those families identifying themselves as Aboriginal off reserve*. Funding is allocated using Stats Canada data on the proportion of Aboriginal children between the ages of 0 to 4 with Aboriginal ancestry.

The Aboriginal Component is projected to be \$2 million (0.2 percent of total funding envelope) in 2013.

* Statistics Canada data collected in the 2006 Census on Aboriginal Origins

Capacity Building Component

Funding is made available for professional development and to assist operators in improving the provision of high quality child care. High quality child care programs align with the principles outlined in [Ontario's Early Learning Framework](#) and provide environments and experiences that engage children in active, creative and meaningful exploration and learning.

The Capacity Building Component is projected to be \$5 million (0.5 percent of total funding envelope) in 2013.

| Capacity Building Component | Weighting Factor |
|------------------------------------|-------------------------|
| 0 to 3.8 years (weighted)* | 33% |
| 3.9 to 12 years | 67% |

* The weighting is based on the staffing ratios outlined in the Day Nurseries Act based on age groups

| Day Nurseries Act – Staffing Ratios | Ratio of Employees to Children |
|--|---------------------------------------|
| Under 18 months of age | 3 to 10 |
| 18 months of age and over up to and including 30 months of age | 1 to 5 |
| More than 30 months of age up to and including 5 years old | 1 to 8 |

Repairs and Maintenance

Repairs and Maintenance funding supports licensed child care service providers and private-home day care agencies that are not in compliance with licensing requirements or may be at risk of not being in compliance with licensing requirements under the *Day Nurseries Act* (DNA) as a result of issues with physical infrastructure/facilities. The intent of this funding is to strengthen the child care system as a whole to best meet the needs of children and families in the community. The allocation is determined on the proportion of 0 to 12 year olds and is projected to be \$2.2 million.

Utilization Component

The utilization allocation was created as a proxy for determining demand within the sector. The utilization allocation is determined using prior year financial statements to adjust funding allocations based on CMSMs/DSAABs spending in the previous year. To recognize those that contribute over their required cost share amount, the utilization allocation includes a base allocation of \$30 million and reallocates funding from those CMSMs/DSAABs that historically underspent their allocation. However, for those CMSMs/DSAABs that see their ongoing allocations decline under the new formula, the utilization component will not further reduce their funding. In addition, those with increases under the formula in excess of their prior over contributions are not eligible for this component.

The inclusion of a utilization allocation responds to those CMSMs/DSSABs that typically contribute over and above the minimum cost share requirement. Over-contribution by CMSM/DSSABs is a proxy for demand for child care services and fee subsidies in their communities. At the same time, CMSMs/DSSABs that historically underspent their allocation may have lower demands for child care and/or fee subsidies in their communities.

The Utilization component recognizes service managers for contributing above their mandatory cost share, encouraging additional resources to flow into child care services. The inclusion of this component is consistent with suggestions made by municipal members of the CCFFWG that the level of voluntary CMSM/DSSAB contributions should be used as one way to assess funding need. The Ministry will revise this allocation annually based on new financial statement information.

The Utilization Component is projected to be \$30 million* (3.3 percent) in 2013 and includes a further 50% of the under-spending of CMSM and DSSAB's in 2011. This allocation is calculated by:

- Taking the CMSM/DSSAB contribution above the minimum amount required divided by the total provincially plus the amount of underspending; and
- Is subject to the eligibility requirements described above.

* Dependent upon individual CMSM / DSSAB behaviour

Small Water Works and Territories without Municipal Organization

The Ministry provides funding to support Small Water Works (\$0.42 million and Territories without Municipal Organization (\$1.30 million). Funding is claims based, and is allocated outside the childcare funding formula to specific CMSMs/DSSABs.

Small Water Works (SWW) funding supports costs related to small water systems for licensed child care centres (e.g. wells, septic systems.)

Territory without Municipal Organization (TWOMO) funding for child care helps support the costs for child care services and service system administration provided in territories without municipal organization. TWOMO funding only applies to DSSABs that include territories without municipal organization (e.g. territory outside the geographical area of any municipality or First Nation.)

Capital Allocation

Retrofits

Retrofit funding will allow operators to re-purpose a number of existing community child care JK/SK spaces to serve younger age groups as 4 and 5 year olds leave child care for Full Day Kindergarten (FDK). Minor capital funding helps transition the child care sector as it adapts to the implementation of Full-Day Kindergarten. The allocation is determined by the percentage of 4 and 5 year olds, and is projected to be \$8.8 million.

Capping Mechanism

In order to allow service managers time to adjust to their new evidence-based allocations, the Ministry implemented a 10 percent cap on the relative declines to CMSM/DSSAB allocations from 2012. This means that for 2013 no CMSM/DSSAB's ongoing funding allocation will decrease by more than 10 percent when compared to the 2012 ongoing funding allocation. Those increasing by more than 10 percent are reduced to offset the cap for those with declines as follows:

$$\begin{aligned} & ((2013 \text{ Precapped Allocation} - 2012 \text{ Allocation} \times 1.1) \times 70.3\%) \\ & + (2012 \text{ Allocation} \times 1.1) = \text{Capped 2013 Allocation} \end{aligned}$$

The multiplier, 70.3 percent, is the ratio of funds reinstated to those over 10% such that the total allocation of \$921.7 million is not exceeded.

Additional Provincial Supports

In addition to the new funding formula, the Ministry is allocating \$50 million in one-time funding in 2013, to assist service managers as they transition to the new funding formula. The funding will be provided in 2013 to those CMSMs and DSSABs on the basis of any reductions to their ongoing allocation in 2013. The Ministry expects the amount will ensure that no service manager sees their total funding allocation reduced for nearly 4 years. There is also an expectation that CMSMs and DSSABs transition their child care systems over this period.

This amount is calculated as follows and is applicable only for those with funding decreases:

- CMSM/DSSAB's change in funding from 2012 divided by the provincial total for those with reductions times 50.

Special Needs Resources and Administration Expenditure Benchmarks

Based on an analysis of prior year expenditures the Ministry has developed expenditure benchmarks to ensure spending in administration and Special Needs Resourcing (SNR) is maintained at reasonable levels.

- The expenditure benchmark for administration shall not represent an amount greater than either 10 percent of any CMSMs/DSSABs 2013 total allocation or the dollar amount contributed in their prior year financial statements to Administration, whichever is lower. However, in the case of those service managers that will see increases to their funding compared to 2012, their Administration benchmark will be adjusted in proportion to their funding increase.

Example:

CMSM/ DSSAB (increased funding in 2013)

$$(2011 \text{ Administration Amount} \times \% \text{ of increase in funding 2013}) \\ + 2011 \text{ Administration Amount} = \text{New Administration Ceiling}$$

$$(\$100,000 \times 20\%) + \$100,000 = \$120,000$$

- The expenditure benchmark for Special Needs Resourcing shall not represent an amount less than 4.1 percent of any CMSMs/DSSABs 2013 allocation.

Note: CMSMs/DSSABs can spend a greater portion of their allocation on SNR depending on local need.

The Ministry will continue to monitor expenditures for these two program categories.

Cost Share Requirements

The new funding formula will streamline cost sharing and make cost share provisions simpler and easier to understand. The cost share amounts have been calculated such that no CMSM/DSSAB is expected to have an increase in their minimum cost share amount from 2012, even where their funding is increasing. Where on-going funding is decreasing, cost share requirements are being reduced as well.

The Core Service Delivery allocation will be cost shared as follows:

- A 50/50 cost share equal to the CMSM/DSSAB's 2012 administration allocation which was previously cost shared;
- An 80/20 amount equal to all the detail codes previously cost shared at 80/20 such that the total does not exceed the total 2012 minimum cost share amount.

In three circumstances, the mix between 50/50 and 80/20 may change where the distribution could not be maintained (this happens in situations where significant portions of their funding comes from the Special Purpose Allocations).

Where there is a reduction in funding under the new formula, 18 CMSMs/DSSABs (excluding mitigation funding) will have their cost share requirement reduced as follows:

- Percentage change in 2013 funding multiplied by the 2012 minimum cost share

The funding reductions of \$13.1 million redistributed from these 18 service managers have been reallocated into the formula on a 100 percent provincially funded basis.

All Special Purpose Allocations are 100% provincially funded. There are no cost share requirements related to these allocations.

Reporting and Accountability

Reporting Requirements

Financial reporting, monitoring and auditing are important elements of an overall accountability framework. The Ministry has in place reporting requirements to ensure accountability and transparency across the sector.

Simplified reporting requirements will allow CMSMs and DSSABs to better match expense reporting to program costs. CMSMs and DSSABs can expect to receive a revised document set and accompanying instructions in the near future.

CMSMs and DSSABs are required to provide the Ministry with detailed financial information on expenditures. Including:

- April 30, 2013 Estimates
- August 30, 2013 Revised Estimates
- May 30, 2014 Financial Report

New 2013 Guidelines

The Ministry is providing revised Child Care Service Management Guidelines to CMSMs/DSSABs in December 2012 to support the implementation of the new child care funding formula. The existing child care guidelines and reporting requirements will be streamlined to reduce the administrative burden on CMSMs/DSSABs and child care operators in Ontario.

Further Information

If you have any questions about the material in this paper, please contact your Ministry of Education regional child care officer.

Abbreviations

| | |
|--------|---|
| CCFFWG | Child Care Funding Formula Working Group |
| CMSM | Consolidated Municipal Service Managers |
| DNA | <i>Day Nurseries Act</i> |
| DSSAB | District Social Services Administration Board |
| FDK | Full-Day Kindergarten |
| LICO | Low Income Cut-Off |
| OMPF | Ontario Municipal Partnership Fund |
| OW | Ontario Works |
| RSCM | Rural and Small Community Measure |
| SNR | Special Needs Resources |
| SWW | Small Water Works |
| TWOMO | Territory without Municipal Organization |