# Ontario's new funding formula – an evaluation [1]

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Excerpts

Ontario's new funding formula is, of course, new. To be implemented in January 2025. So, everyone is feeling around it like the proverbial seven blind men around the elephant. There are different opinions depending upon which part you are touching.

What we do know for sure is that this is a cost-based funding formula, seeking to take into account the different cost situations facing different child care centres. It will replace the revenue-replacement model which began in March 2022, which was based only on what parent fees were charged by a centre, not on their costs. For many centres, the revenue-replacement model failed to cover true costs, driving centres into debt as a result, or forcing them to close rooms.

This evaluation is based only on the funding formula for child care centres, not for home child care.

**The funding formula – a thumbnail sketch**

Ontario's new funding formula will deliver operational funding to centres that are in the $10 a day program (CWELCC). Each centre will have to come up with a projected operating budget that identifies how many licensed spaces they have in each age group, how many of these spaces will be operational in the coming year, whether the centre is located in a community space or a school, the location of the centre, and the number of days of operation for each age group per year. These data will be fed into a funding formula to determine how much revenue the centre will receive for operations in the coming year (to cover wages, salaries and benefits of program staff and supervisors, food, accommodations, administration, materials and so on).
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For more details about how the new funding formula works, see my blog from September 23rd, 2024.

OK, on to the evaluation:

**Positives of the funding formula**

Let's emphasize the positives first. The Ministry of Education has made a serious attempt to develop a cost-based funding formula – a funding formula that will cover the legitimate costs of operators seeking to provide quality services for children. It begins the process of developing public management of child care operations with financial accountability for the money spent. It is not perfect, as you will see below; there are some serious problems that remain. But first, here are some of the positives:

1. Finally, we are getting rid of the stopgap "revenue-replacement" funding model which was not based on the true costs of operating a child care facility, but was based on whatever your parent fees for children 0-5 happened to be on March 27, 2022. For some centres – those who had kept fees low, or those who used higher school age fees to cross-subsidize parent fees for younger children, or those seeking to attract more staff – revenue-replacement was extremely unfair. These centres went into deficit and many shut down rooms. So, having a funding model which purports to be based on costs is a big step forward.

2. For those centres seeking to expand and licensees seeking to set up new centres, it is now possible to forecast what your annual revenues will be. This is indispensable to support growth.
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**Negatives**

8. The funding formula is not based on a wage grid. Instead, there is a wage floor for RECEs – currently $23.86 per hour. A wage grid would establish wages to be paid to all certification levels of staff, including untrained staff, cooks, supervisors, etc., with increases in this hourly wage based on experience and qualification level. Many Canadian jurisdictions now have wage grids.

A wage grid is designed to attract and retain educators and other staff. The absence of a wage grid means that paying low wages is an attractive competitive strategy for some operators – low wages will potentially leave them surplus revenue to spend in other ways. For instance, for-profit operators could use these freed-up revenues to pay accelerated mortgage costs so that they end up owning child care assets sooner.

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