a Childcare Resource and Research Unit publication

briefing notes

Gordon Cleveland, University of Toronto Scarborough. October 19, 2022.

The context for this briefing note is the 2021 Canada-Wide Early Learning and Child Care plan (CWELCC). In 2021, the Government of Canada committed to substantially augmenting existing child care funding, accompanied by ambitious policy commitments, to build a Canada-wide child care system. The plan has the goal of building high quality, affordable, universal early learning and child care for all in a primarily not-for-profit system.

As specific design and implementation of ELCC provision is a provincial responsibility in Canada, a CWELCC Agreement was negotiated between federal and each provincial/territorial government to cover the period through fiscal year 2005-2006, with the understanding that federal funds will be ongoing. An Action Plan specific to each province/ territory was negotiated to cover fiscal years 2021-2022 and 2022-2023, with subsequent Action Plans to be developed prior to further fiscal years based on the Agreements and goals.

This document applies specifically to Ontario's implementation under the CWELCC.

# What direction now?

# Ontario's Funding and Management Guidelines for 2023 and beyond

The purpose of this document is to propose what some key objectives and essential elements of Ontario's funding and management arrangements should be for 2023 and beyond. Crucial decisions about these new funding and management rules will have long-run implications for how the new CWELCC system develops.

Based on the CWELCC Agreement, the long-run objective of the new funding and management arrangements in Ontario should be to establish child care as a publicly managed and largely not-for-profit service similar to health and education. Early learning and child care services would be affordable for families; accessible for families no matter where they live or what their circumstances; inclusive of children no matter what their capabilities; flexible enough to meet different parent and child needs; and of high-quality with qualified staff to foster and support children's development. This is the vision to which Ontario agreed in signing the Canada-Wide Canada-Ontario ELCC Agreement on March 28, 2022.

According to the Agreement signed by Ontario and the federal government, existing for-profit, not-for-profit, and public child care services are equally welcomed to join the new CWELCC system, with for-profit expansion limited to 30% or less of new spaces. Ontario has promised strong measures to ensure accountability in the expenditure of over $10 billion of public funds provided by the federal government over the next four years starting April 2022. In particular, the Ontario government has committed to "ensuring that costs and earnings of child care licensees that opt-in to the Canada-wide ELCC system are reasonable and that surplus earnings beyond reasonable earnings are directed towards improving child care services." (Section 4.0 Financial Provisions, Canada-Ontario CWELCC Agreement).

The Management and Funding Guidelines published by the Ontario government in April 2022, just after the CWELCC agreement was signed, affirmed the municipal role as gatekeepers of prudent financial management in the system. Child care fees for all operators were frozen as of March 27th, 2022. Municipalities (CMSMs and DSSABs) were to sign up operators, and pay them the exact amount of their revenue loss resulting from an immediate cut of 25% in fees. Some parents have benefited to date, but sign-ups and fee rebates have gone slower than expected.

The April Guidelines, together with the Ontario Action Plan, made clear the "public" nature of child care in Ontario going forward. In exchange for receiving large amounts of on-going operational funding, child care operators would become private providers of a regulated and largely publicly-funded public service designed to provide very affordable, high-quality child care to Ontario's children.

As part of a regulated public service, revenues and expenses for child care services would no longer be managed in the old ways. Providers of child care would no longer be able to set their own fees. Currently these fees are frozen, will be (or recently have been) cut by 25% backdated to April 1st 2022, and will be cut by a total of 50% by end December; by April 2026, these parent fees would be limited to $12 a day, and an average of $10 a day including fee subsidies. Providers of child care would no longer be permitted to pay any level of wages and benefits they want. Wages and benefits would be subject to government policy – a wage floor for educators, gradually increasing wages to a minimum of $25 per hour. Child care operators would receive compensation for the expense of providing child care beyond $12 a day, but only expenses judged to be reasonable in delivering high-quality child care would be publicly compensated. The amount of profit earned by for-profit operators would be limited; the amount of salary that can be charged for the service of management would be limited to be on par with practice in the not-for-profit sector. As Service System Managers, municipalities were tasked with determining whether fee levels were based on inflated costs, ineligible expenditures or excessive rates of profit.

In August, however, the Ministry of Education published updated and revised Management and Funding Guidelines for 2022 after a heavy lobbying campaign on behalf of for-profit operators. The amended guidelines stripped away most controls on the "reasonableness" of spending for 2022, and any limitations on the amount of profit a for-profit operator could earn. In practical terms, the changes to these funding guidelines are not so much an immediate problem as they are a future problem.

The new August Management and Funding Guidelines were designed explicitly to help recruit for-profit child care centres to Ontario's CWELCC system. As such, for-profit operators are likely to regard them as a promise of what the future long-term funding arrangements for service providers will look like. In effect, the August guidelines are a promise to have no serious system of controls over the reasonableness and efficacy of costs charged by operators to the public purse. Without these cost controls, there will be little public accountability by operators for the government funds spent on early learning and child care in Ontario. This is a big problem.

The August revisions to the Management and Funding Guidelines have set Ontario on the course of creating a two-tier system of child care operators – one group with publicly accountable costs management, and the other without. The majority of not-for-profit operators, particularly in the larger CMSMs, have had purchase-of-service agreements for child care fee subsidies and have had their costs monitored for reasonableness for many years. Many for-profit operators have never submitted financial information to municipalities and typically they charge much higher fees than not-for-profits.[1] The August revisions eliminated the need to provide financial audits prior to joining CWELCC. These for-profit operators are lobbying to provide very little financial information to municipalities in the future. As far as they are concerned, they are independent operators with rights of commercial confidentiality. They don't want monitoring, evaluation and financial accountability. Decisions about the 2023 Management and Financial Guidelines will determine whether Ontario maintains this two-tier child care system going forward.

The new longer-term management and financial arrangements for 2023 and beyond will have to be developed very quickly. Municipalities need some guidelines and certainty to plan for next year. So far, only a very select group of individuals from the sector have been invited to consult on these future guidelines, and this consultation is happening in complete secret. This, too, is a big problem.

[1]In 2020, the median preschool fee charged in for-profit centres in 11 Ontario cities was 8% to 40% higher than the fee charged in not-for-profits (Table 13, Macdonald & Friendly, Sounding the Alarm, Canadian Centre for Policy Alternatives).

Mature child care systems, such as those in the Nordic countries, typically have simplified funding systems. Cost control is achieved by limiting payments to operators according to agreed-upon formulas. In these systems, governments provide fixed amounts of payments to operators based on important service characteristics, for example, the number of children enrolled in different age groups, education and experience levels of staff, transportation costs if necessary in a rural area, etc. Quebec has this kind of formula-based funding system for the operators that charge $8.70 per day for children 0-4 years of age.

In order to design this kind of simplified funding model, administered through CMSMs and DSSABs, municipalities and the province would need to have a great deal more information than they do currently about cost variations in the delivery of child care services in Ontario. Without knowledge about how cost differences drive fee differences across the province, it will not be possible to design a simplified funding system that is equitable and uses public funds wisely, while promoting quality, allowing for substantial recruitment and retention of qualified educators, prioritizing the needs of lower-income families, giving CMSMs and DSSABs reasonable flexibility to address local needs, and promoting efficient decisions by operators. Data on fee levels across Ontario in 2021 indicate that there is very wide variation in the net costs of delivery of the same child care services in different parts of the province, and probably from one operator to another. Looking at average fee levels in different CMSMs and DSSABs, the lowest preschool-age child care fee average in the province is $26.68 per day and the highest average is $61.32 per day. That's a very wide range and the range among individual centres would be even larger. (See Table 1, Ontario Regulation 236/22)

Management and Funding Guidelines in Ontario provide the framework and rules for the relationship between the province and the municipalities in relation to child care and early years services. On the funding side, there are a series of envelopes for funding different services or functions, until now largely funded by the provincial government. The biggest funding envelope by far is for Core Services Delivery which includes child care fee subsidies, general operating funding and special needs. There are numerous other funding envelopes: for instance: Wage Enhancement, EarlyON Child and Family Programs, Capital Expansion, Base Funding for Licensed Home Child Care, Funding Under the Canada-Ontario ELCC bilateral agreement, Funding Under the Canada-Ontario Early Childhood Workforce Agreement and Indigenous-Led Child Care and Child and Family Programs. There is considerable municipal discretion over how the Core Services Allocation is spent by municipalities (but some limitations as well). This gives municipalities important scope to respond to local child care priorities and needs. For the other envelopes, there is often some, but generally quite limited municipal discretion about how funds are used. In contracts signed between the Ministry and the CMSMs/DSSABs each year, there are contractual service targets and reporting requirements related to each of these allocations.

Underlying these allocations or envelopes is a provincial funding formula that determines how much money each CMSM/DSSAB receives each year for each allocation. The heart of this funding formula is a data-based model with the following main elements for each CMSM/DSSAB: number of families below Statistics Canada's Low-Income Cut-Offs, population of children 0-3.8 years, population of children 3.9-12 years, population with no certificate, diploma or degree, and Ontario Works Caseload. There are other factors (called Special Purpose Allocations) such as rural/remote, indigenous population, language and cost-of-living that may supplement the main allocation for Core Services Delivery.

As CWELCC is implemented in Ontario, and as further agreed-upon parent fee reductions are rolled out, the Management and Funding Guidelines and the Funding Formula will have to change for 2023. Guidelines and funding for 2023 need to facilitate achievement of a number of key tasks:

## Accountability

(1) To reinstate, relative to August 2022, Ontario's commitment to financial accountability of child care operators for the billions of dollars of government money they receive. To restore the crucial municipal role in administering these accountability requirements.

(2) To provide enhanced funding, research support and other resources for the new administrative and financial accounting responsibilities that CMSMs and DSSABs will have in the CWELCC system. To provide extra resources for operators to handle increased administrative and reporting requirements.

## Affordability

(3) To provide the necessary operational funding to lower parent fees by 50% and, in 2025, to $12 a day by:

- Providing funding to existing centres and home agencies that have joined the CWELCC system in order to permit them to reduce parent fees by 50%relative to March 27, 2022 levels, and eventually to $12 a day;
- Providing funding to existing centres and home agencies to compensate those who have legitimate extra costs that need to be compensated in order to deliver the 50% parent fee reduction without reductions in quality, and eventually parent fees of $12 a day;

- Providing funding that maintains the amount of financial support (operating funding) that providers received on March 27, 2022, which was the foundation for the fees charged on that date;
- Providing funding to new spaces and new centres that have joined the CWELCC system but do not have an established fee as of March 27, 2022 to permit them to charge reduced parent fees comparable to those of existing operators.

(4) To provide increased amounts of support for low-income and marginalized families in the form of child care fee subsidies or a sliding scale of fees. The April guidelines effectively froze the number of subsidies available.

## Accessibility/Availability

(5) To provide funding and other supports for an enhanced municipal role in province-wide growth planning, in determining priorities and in facilitating service expansion.

(6) To provide a program of capital funding to encourage and support the expansion of not-for-profit and public child care services in each CMSM and DSSAB.

(7) To provide funding to Indigenous-Led Child Care and Child and Family Programs.

## Quality

(8) To provide wage enhancements – both amounts currently planned and substantial additional amounts to support recruitment and retention of qualified educators. Compensation similar to educators in schools and community colleges should be the target of a phased-in and mandated wage grid.

(9) To provide funding support for enhancements in quality of services across the CWELCC system. Operators should not be penalized by funding arrangements for providing higher quality care, and previous parent fees did not always cover full costs. However, quality services should be equitably distributed across populations and neighbourhoods and not concentrated in affluent districts.

## Inclusivity

(10) To provide continuing and additional support for children with special needs.

(11) To support culturally-inclusive pedagogical practices across all child care providers.

## Other

(12) To provide funding for services for children 6-12 years of age.

(13) To provide funding to compensate municipalities that have extra costs, as in the previous funding formula set of Special Allocations.

## Budget submission and approval by municipalities

This brief does not try to recommend detailed funding and management rules related to most of these goals. That should be the subject of detailed consultations. However, one thing appears to be clear: adopting a budget submission and approval process, in which all child care operators submit detailed annual budgets for approval by municipalities, must be a key part of the way forward, and a key component of the municipal role described in the new guidelines.

Under CWELCC funding, municipalities are no longer simply making limited contributions to the costs of operators. Instead, municipalities are obligated to pay exact amounts to each operator to cover legitimate revenue losses or extra costs relative to the reduction of parent fees. This will reduce municipal discretion in expenditures while at the same time increasing municipal responsibilities for determining whether variations and changes in operator costs are legitimate or not.

The large majority of the CWELCC funding – 76% in 2022-23 and 70% in 2023-24 – goes (according to Ontario’s Action Plan) to the objective of lowering parent fees to improve affordability. This funding must be delivered efficiently, equitably and with unimpeachable accountability for the expenditure of public funds. Delivering this funding effectively through municipalities, and through operators to parents will be central to the success of this program.

The April version of the Management and Funding Guidelines affirmed CMSMs and DSSABs as the gatekeepers of financial accountability of the new CWELCC system. The 2023 Management and Funding Guidelines must restore and clarify this role. As Service System Managers, municipalities will be responsible for funding to existing and new facilities, and to planning for expansion. They will be pivotal to public accountability in the expenditure of these funds to achieve the desired objectives.

In order to fulfill their responsibilities of judging the reasonableness of centre and agency expenditures going forward, there will need to be a budget submission and approval process as a requirement for all operators. This should be a key component of the new Management and Funding Guidelines for 2023. This would be similar to the methods used in some CMSMs/DSSABs to judge the reasonableness of expenditures allowed for operator per-diems for child care subsidy.

For example, to judge reasonableness of expenditures, Toronto Children's Services analyzes all of the budget information in comparison to relevant guidelines and policies. The current year budget is compared to the prior year's budget to identify any significant variances that may need to be followed-up. Further, all centres with a Service Agreement with the City must provide Toronto Children's Services with audited financial statements within four months of the organization's fiscal year end.

If all centres/home agencies who are members of the CWELCC system were to submit detailed budgets of this type each year, it would provide the basis for determining actual costs and revenues. The comparison of budgets across operators would provide the basis for judging the reasonableness of expenditures in relation to the amount and quality of services delivered and to staff compensation levels. The objective is not to squeeze quality, nor to hold back necessary increases in staff compensation, but to ensure funds are spent to maximize their effectiveness. The budget data would also provide a basis for separating the cost of activities that are eligible for CWELCC funding and those not eligible in each child care facility.

## In summary

Management and Funding Guidelines must keep the long-run objectives in view: creation of a publicly managed and predominantly not-for-profit system of early learning and child care services that is affordable, accessible, inclusive, flexible and of high-quality.

Ontario has committed itself to ensuring that both the costs and earnings of all Licensees are reasonable and that surplus earnings are re-invested in the improvement of child care services. The Management and Funding Guidelines therefore need to provide mechanisms to monitor and assess costs and earnings.

The April revisions to the Management and Funding Guidelines affirmed the front-line role of municipalities in providing financial accountability and ensuring the reasonableness of costs and earnings of all operators. They identified powers and responsibilities of both operators and municipalities to achieve these objectives.

The August revisions to the Management and Funding Guidelines removed most of the powers of municipalities and responsibilities of operators that were necessary to maintaining detailed financial accountability.

There Is a serious danger that the August revisions are leading Ontario towards a two-tier system of child care in which most for-profit providers will have few controls on their expenditures or earnings despite the fact that most of their revenues will come from government.

The 2023 Management and Funding Guidelines need to allocate funding, and describe related responsibilities in relation to accountability, affordability of services including low-income families, accessibility and growth, substantial compensation increases and other quality-related measures, inclusivity, and funding for services outside the CWELCC system.

Most mature child care funding systems are formula-based, with allocations to individual child care providers based on services provided plus a wide range of other factors that differentially affect the cost of providing those services for providers in different circumstances.

Neither municipalities nor the provincial government currently have sufficient detailed information about costs and earnings variations to design simple funding formulas that will achieve desired objectives. This funding must be delivered efficiently, equitably and with unimpeachable accountability for the expenditure of public funds. Adopting a budget submission and approval process, in which all child care operators submit detailed annual budgets for approval by municipalities, must be a key part of the way forward and a key component of the municipal role described in the new guidelines.

## Post-script

On October 18th, the provincial government distributed a brief overview of its plans for CWELCC child care funding in 2023. It states that they plan to continue the revenue-replacement approach of 2022, and there are apparently no plans to reinstate the detailed accountability measures that were removed in August. Despite the many pressures on child care costs, the new provincial plan has no explicit cost-control framework. In 2023, municipalities will not be collecting cost information from all operators through a budget submission process yet the Ministry is planning to come up with a new “cost-based funding approach” for 2024. As there is currently very little provincial data on child care costs, one wonders where this will come from. An alternative direction is recommended in this briefing note.

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