Roadmap

to Universal Child Care in Ontario

Policy Brief 2: Ontario Child Care Funding Formula

By: Dr. Gordon Cleveland

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COALITION ONTARIENNE POUR
de meilleurs services éducatifs à l'enfance

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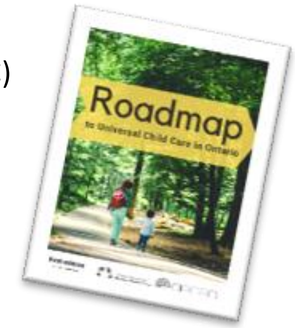
INTRODUCTION



In July 2021, the first edition of the *Roadmap to Universal Child Care in Ontario* was released by the Ontario Coalition for Better Childcare (OCBCC) and the Association of Early Childhood Educators Ontario (AECEO). The *Roadmap* set out a shared vision and path forward, but did not delve deeply into each area of transformation needed. We are now releasing a series of policy briefs that discuss specific issues in more detail, and program profiles highlighting innovative practices and programs in Ontario.

It is anticipated that Ontario will release and implement a new child care funding formula in 2024-2025. This brief outlines what a new funding formula should do in order to be successful and can help inform evaluative processes, feedback and further refinements to Ontario's funding approach.

WHAT IS A CHILD CARE FUNDING FORMULA AND WHY DOES IT MATTER?

Ontario needs an equitable child care funding system that covers legitimate costs and encourages both quality and accountability for public funds. The Ontario Government has promised child care providers "a funding formula" since the Canada-Wide Early Learning and Child Care (CWELCC) system began. What does this mean? And what kind of funding formula do we need? This policy brief explores these questions and why the funding formula is so important for the future of ELCC in Ontario.

Ontario's funding formula will determine how much revenue each child care program will receive each month and each year. Before CWELCC, parent fees provided the largest part of revenues, and operating and wage grants provided most of the rest. But, as the parent fee falls to $12 a day (in September 2025), close to 90% of a program's revenues will come through the funding formula. So, if Ontario's funding formula is not right, child care providers will not be able to survive. Because Ontario's current funding formula is only a "revenue-replacement" model rather than based on actual costs, many child care providers are having difficulty surviving now.

When the Ontario Government signed onto the CWELCC program, it changed the funding system for child care in the province. Before March 2022, child care providers had some control over their revenues and could set them to cover their costs. Providers set their own fees, sometimes in negotiation with their local municipality. They also received operating funding (General Operating Grant) and wage funding (Wage Enhancement Grant).

On March 28th, 2022, fees were frozen at whatever level they were at the day before. Immediately after this, the fee charged to parents for each age category of care 0-5 years was cut by 25%. Of course, this revenue had to be replaced by government. Effectively, the Ontario government cut a cheque for each centre equal to 25% of the frozen fee times the number of children they served who were eligible for CWELCC (0-5 years of age and not yet in Grade One). And so the "revenue replacement" funding model was born. It was supposed to be temporary.

Right from the beginning, the revenue replacement funding model was not fair or efficient. The fees charged by child care operators at the beginning of CWELCC (i.e., the frozen fees) reflected all the chaotic pressures of unaffordable child care before that time. In many cases, especially for not-for-profit operators, fees (and operating costs) had been artificially suppressed for some time - to keep parent fees as low as possible. In many centres, the fees for school-age child care were kept higher than their underlying costs so that infant and toddler child care fees could be kept down. As a result, the "frozen" infant and toddler fees were not high enough to cover true costs, which meant that the revenue-replacement funding model drove centres into deficit.

Of course, there were also some "lucky" child care operators, most of them for-profit, who had high fees when CWELCC started. For them, the "frozen" fees were a windfall. Also, if your centre paid low wages before CWELCC, Ontario's new wage floor funding would pay for all of the required wage increases. So, those with high fees and low wages before CWELCC have been the winners from the revenue replacement funding model. In other words, those operators who did not need assistance have received the most funding assistance from the Ontario Government.

Partly because of the child care demand pressures due to CWELCC (but also because of Ontario's inadequate wages policy), there has been a rapidly expanding recruitment and retention crisis – it has been impossible to attract and keep qualified educators without paying them more. On top of this, as inflation rose, child care costs have been rising. For all of these reasons, freezing fees and only replacing the difference between the lowered parent fee and this frozen fee was a very destructive long-term funding arrangement. Ontario has offered less than 5% increase in funding over two years to account for inflation. Except for some of the centres benefiting from Ontario's wage floor funding, this has been nowhere near enough.

The province's unfair "temporary" revenue-replacement model has been in place for two whole years now and it has caused wholesale chaos in the child care system in Ontario. Many centres are in deficit; some are shutting down. There are long waiting lists to get into centres and homes, because expansion of facilities is not taking place. Growth has been nearly halted because no one knows what future revenues will be. Only deep-pocketed private equity investors have the surplus funds that allow them to take a risk that future funding will be enough.

WHAT SHOULD ONTARIO'S FUNDING FORMULA DO?

A funding formula has to do several things. It has to cover all the legitimate costs a centre or licensed home child care has in providing good quality child care services to children. And it has to provide incentives for centres to do things that we want the system to do. It needs to incentivize continual improvements in quality. It needs to incentivize the continual development of the capacities and knowledge of educators. It needs to encourage the expansion of child care services to meet rising demands and needs. If a funding formula does not do these things, it is a failure and the child care system will not thrive.

Linked to the funding formula, a child care system needs financial accountability. We want all legitimate costs to be covered, but owners of child care centres should not be enriching themselves at government expense. So, there needs to be a system of financial reporting and monitoring that ensures that expenditures are devoted to improving the lives of parents and children and compensating educators and other staff fairly for their devotion to good quality care. Municipalities should be centrally involved in implementing this system of financial accountability, as they are generally involved in program and quality accountability.

DEVELOPING A GOOD FUNDING FORMULA FOR ONTARIO CHILD CARE

A wide range of jurisdictions have developed funding formulas to provide revenues to publicly-managed child care systems. Each one is a bit different. Each existing funding formula has been changed as its child care system has provided feedback; a funding formula is not set in stone. PEI has a funding formula for its Early Years Centres and has had since 2010. Quebec has a funding formula for its CPEs and other centres with set-fees. Manitoba has a funding formula. British Columbia is pilot-testing a new funding formula.

Other countries have funding formulas – New Zealand, Norway, Sweden, Denmark and so on. It is straightforward and should be a foundation of the CWELCC child care system. Ontario can no longer delay in developing a funding formula when it is clear that the lack of funding for legitimate costs is forcing centres into deficit and into leaving the CWELCC system. The lack of any revenue guarantees is making it impossible for most not-for-profit providers to raise financing and plan expansion. Without an adequate and fair funding formula, CWELCC will fail in Ontario.

PRINCE EDWARD ISLAND'S FUNDING FORMULA

The design of PEI's funding formula is remarkably simple. It takes the staffing wage costs, adds 20% for benefits, and then adds another 25% on top for all other costs. The formula will fund the number of Full-Time Equivalent (FTE) staff required by regulations to cover currently enrolled children. Staff are paid according to qualifications and experience (5 steps) on a wage grid that has been increased at least six times since 2010. A two-year diploma ECE earns a starting wage in PEI ($28.86 per hour) that is $5.00 per hour higher than the new wage floor in Ontario of $23.86.

The funding formula in PEI gives each centre funding according to the actual certified qualifications of staff even if this certification level is above the regulatory requirements. This encourages hiring front-line staff with higher levels of education and experience – the centre gets more operating funding as a result. The staffing wage costs in the formula also include funding for the salary of the director and the cook. Funding is paid in advance to the centre and reconciled later with actual staffing levels and enrolments.

The other thing that is nice about PEI's funding formula is that it gives the centre considerable discretion about how exactly to spend its funds. So, centres can choose to tailor their spending to the particular needs of its children and parents. But there is regular financial reporting to make sure funds are not misspent.

QUEBEC'S FUNDING FORMULA

Quebec has a more complicated funding formula, developed and adapted over the years. Quebec's funding model seeks to cover the legitimate costs that an operator has in the delivery of services to children. There is a base allocation of funding and then supplementary allocations; the largest share of funding is the base allocation. The base funding allocation is composed of five elements: direct services, auxiliary services, administrative services, occupancy costs and service level optimization.

For direct services, there is a fixed rate of funding per day based on the enrollment in each age category. In 2024, $66.49 is paid to each centre for each day of infant care, $41.85 for each day for a child 18-47 months of age, and $33.64 is paid for each day for a child 48-59 months of age. These amounts are adjusted regularly to take into account changes in the bargained wage scales for employees.

There are supplements to funding for centres based on a number of factors:

- if the overall compensation bill in this centre is particularly high (because, for instance, many of the staff have many years of experience)
- if the qualifications of staff in the centre are high relative to a reference rate. This provides some incentive to hire more qualified staff.
- if the attendance rate of enrolled children is low
- according to the number of paid days off provided to employees.

There are other parts of the funding formula that cover auxiliary services (such as food preparation, cleaning, snow removal, and purchases of minor equipment), administrative services (based on the number of spaces), occupancy costs (a maximum that varies regionally and covers rental payments, energy costs, fire and theft insurance, maintenance and repair costs, and property taxes paid by the tenant). There is also an adjustment to funding based on what is called service optimization: enrollment has to be at least 90% and attendance has to be at least 70% or the funding allocation is reduced.

WHAT KIND OF FUNDING MODEL DOES ONTARIO NEED?

Should Ontario have a simple funding formula like the one in PEI? Or more detailed, like the one in Quebec? Should Ontario start simple and add additional elements as it becomes clear that they are needed?

Perhaps the first thing to recognize is that it is almost impossible to design a funding model if there is no wage grid that determines the wage levels of most staff in the system. Without a wage grid, even centres that have the same number of infants, toddlers and preschoolers will have widely different costs. As we all know, staffing costs are the majority of all costs of providing child care. Instead of a wage grid, Ontario has a wage floor and a wage enhancement eligibility ceiling, raising RECE wages at the bottom end and providing no assistance to centres that have more experienced and qualified staff. Ontario's wage policy disproportionately provides most wage assistance to for-profit centres who currently have low wages. And it provides no wage enhancement to encourage recruitment and retention of well-trained and experienced RECEs. That is why the first requirement for an Ontario funding model is a wage grid that rewards staff based on qualifications and experience.

The current wage levels for educators in PEI with a two-year ECE diploma have been effective in reducing retention and recruitment problems because they are close to equality with the average hourly wage in the province. In January 2024, the average hourly wage across all workers in PEI was $28.86, the same as the starting wage for an ECE with a two-year diploma. Equality with average hourly wages makes ECE jobs attractive.

In Ontario, in January 2024, the average hourly wage was $36.14. If this was the typical wage of two-year ECEs in Ontario, recruitment and retention problems would diminish dramatically. This is completely in line with the AECEO and OCBCC's recommendations for "a publicly funded salary scale of at least $30-$40 per hour for RECEs and at least $25 per hour for non-RECE staff as part of a comprehensive workforce strategy and compensation framework."

BEYOND THE WAGE GRID, WHAT SHOULD ONTARIO'S FUNDING FORMULA LOOK LIKE

Ontario tried to propose some elements of a funding formula back in 2023. It was to be composed of four sections: a program staffing grant, program leadership grant, operations grant and an accommodation grant. There was to be a separate home child care grant.

As Ontario's discussion paper about the funding formula in 2023 pointed out "…the Ministry of Education must ensure there is a sustainable funding model in place that is responsive to child care cost structures to support the child care system and growth." Very true, but that is precisely what is missing now in Ontario.

There are choices to be made about what exactly Ontario's funding formula should look like. Whatever the details of the funding formula, it has to meet key objectives.

THE FUNDING FORMULA SHOULD:

- cover all the legitimate operating costs of a centre providing quality licensed child care services at or above regulatory minimums for children 0-5 years across Ontario;
- give operators discretion in decisions about the expenditure of allocated funds (ability to transfer funds across grant categories), but also require operators to report in detail at year-end about how funding has been spent in an auditing process that establishes clear accountability for all money received;
- recognize sources of additional legitimate costs, such as providing care to a large number of children with disabilities, even if not diagnosed, or caring for a large number of children receiving subsidy, serving equity deserving groups, or providing extended hours of care;
- recognize higher costs per child that come from operating a small centre in a rural or remote area;
- allow for building up a three to six-month cash-flow surplus and a maintenance and repairs surplus;
- not include a line item for profit. Profit, if any, should come from an especially efficient use of resources and maintenance of full enrolment, not as an extra gift from governments;
- vary payments based on actual enrolments, not just licensed or operating capacity;
- provide incentives for the provision of higher quality child care services.

STAFFING:

- provide funding that varies with the number of staffing hours of child care provided and allows for collaborative planning/preparation/meeting time, time spent communicating with parents, time spent on health and safety and administration, and time spent doing pedagogical documentation;
- cover compensation costs for Registered Early Childhood Educators and assistants at wage and benefit rates that are competitive with other occupations requiring similar education, training and practicum requirements such that early learning and child care in Ontario is not characterized by staff shortages and widespread director's approvals;
- cover the compensation costs of supervisory staff and directors of child care centres;
- cover the compensation costs of housekeeping, maintenance and food preparation staff;
- reward and encourage ongoing professional learning and increased educational qualifications of both early childhood educators and assistants;
- provide for extra compensation for early childhood educators with additional qualifications;

- provide for staff absences in calculating expected annual work hours and provide, in addition, for the expected costs of replacement staff, both for staff holidays, sick leave, maternity and parental leave and other absences;
- adopt a wage grid and, perhaps, a timeline over which to achieve it. The funding formula should reward operators who pay wages and benefits according to the timeline of wage and benefit rates;
- provide for public funding of a defined-benefit pension plan and a comprehensive group benefits plan as for child care employees in Nova Scotia, with related supports for home child care providers.

OCCUPANCY COSTS:

- be willing to fund both principal and interest for mortgages of not-for-profit child care centres and agencies on the understanding that these funded assets will stay in the child care sector;
- be willing to fund only interest payments (not principal) on mortgages for existing for-profit child care centres, agencies and organizations who will retain ownership of assets if leaving the sector;
- establish and regularly update a geographic-based set of expectations about the level of "normal" occupancy costs, together with a process for validating occupancy costs above these norms. In particular, legitimate legacy costs should be respected;
- distinguish between legitimate and illegitimate reasons for having higher than normal occupancy costs.

OTHER:

- encourage expansion, especially within existing facilities. So, for instance, the formula should be based on either licensed capacity or the expected number of enrolled spaces over the next year as opposed to past enrolment (i.e., past operating capacity);
- provide for minimum expected amounts to be spent on extra care for children with diagnosed or undiagnosed special needs;
- provide for minimum expected amounts to be spent on food and food preparation, and on toys and supplies;
- provide an adequate allowance for administrative costs.

WHAT ONTARIO CHILD CARE NEEDS

If the Ontario Government wants CWELCC to succeed, it has the capacity to do it. But the child care sector requires:

- fair and adequate revenue stream for child care operators sufficient to cover legitimate child care costs;
- a funding formula that reflects the principles described above and provides certainty for child care operators;

- a plan to deliver revenues at the beginning of each month or each quarter;
- a plan authorizing municipalities to require centres to produce expenditure and revenue budgets for the forthcoming year and to reconcile these with actual costs and revenues as a means of financial accountability;
- abandonment of Ontario's wage floor mechanism and replacement with a wage grid centred on providing RECEs with an hourly wage at least $30-40 per hour and equal to the provincial average hourly wage.

The Ministry of Education committed to delivering a sustainable funding model responsive to child care cost structures and supporting the child care system and growth. In order to be successful a new funding model needs to respond to the complexities as outlined in this brief and move us closer to the vision of full and sufficient public funding.