

Assessing Ontario's Funding Formula

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See my blogs on child care policy at

www.childcarepolicy.net

Ontario's early learning and child care system for children 0-5

- Nearly 300,000 children in licensed child care
- Another 200,000 children in full-day kindergarten.
- Another 100,000 children with parents on maternity/parental leave
- All together, 65% of children currently using different parts of Ontario's early learning and child care system.
- Virtually every child benefits from the system as they grow up.
- Huge progress so far in transforming towards \$10 a day child care. Much remains.

What does the funding formula do?

- determines the amount of revenue different child care centres and agencies will receive for the provision of services
- It's a "cost-based" funding formula, with financial accountability – not actual costs but expected costs
- (supposedly) based on "the typical costs of providing quality child care in a geographic region, based on planned operating spaces."
- Formula determines a centre's revenues based on key cost-drivers
- But also: one of the Ministry's goals with the new funding and accountability processes is "to gradually shift the overall cost of providing child care ... towards more standardized costs, as represented by the benchmark allocations."

Structure of the formula (1)

- 1. Program Staff Component – wages and benefits of program staff
- 2. Supervisor Component – wages and benefits of supervisor
- 3. Accommodation Component – accommodation costs (incl maintenance, repairs, insurance, property tax, etc)
- 4. Operations Component – all other regular expenditures, including food, admin, supplies, support staff
- Sum of the components above makes up the Unadjusted Benchmark Allocation

Structure of the formula (2)

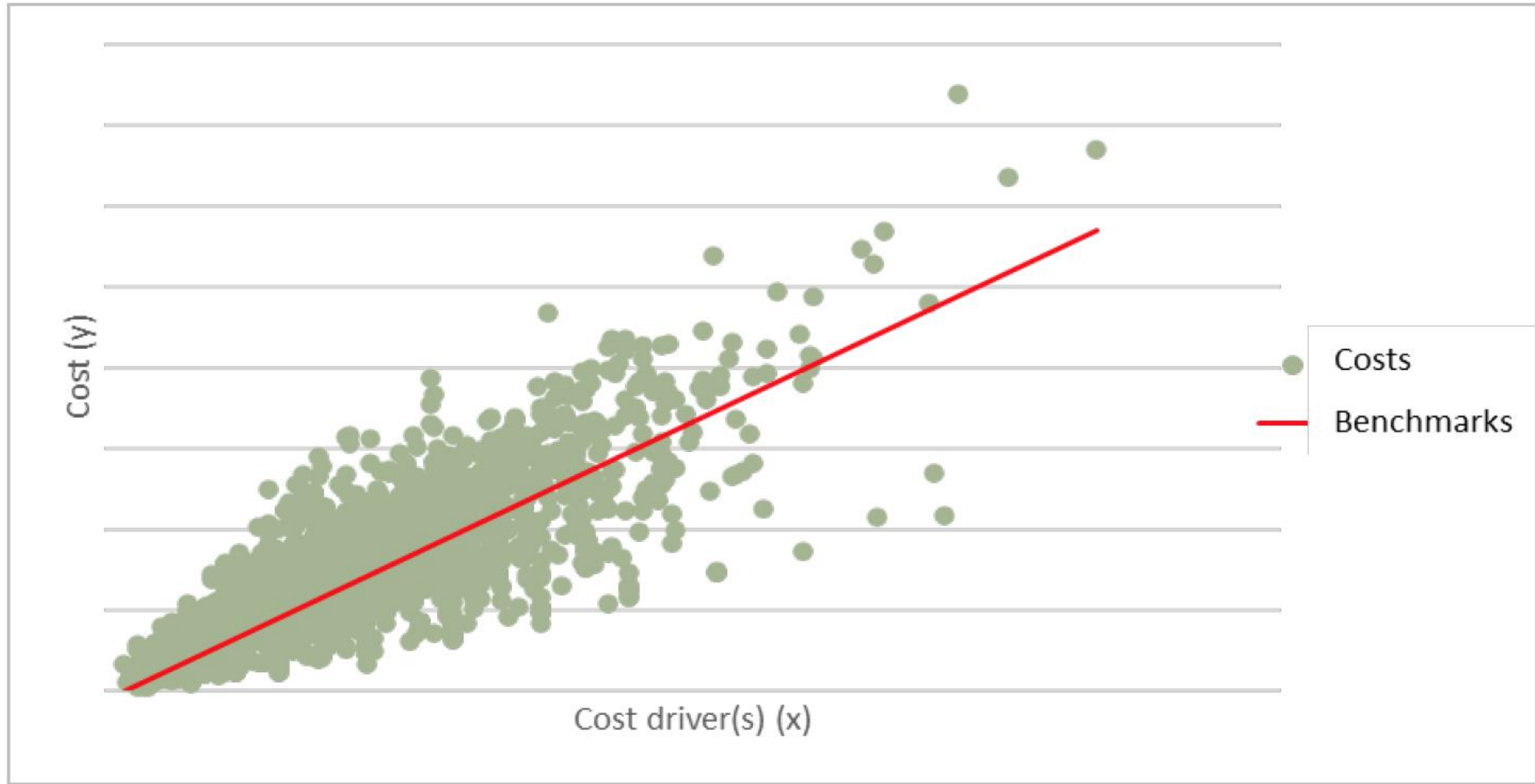
- 5. The unadjusted Benchmark Allocation is adjusted up or down by the Geographic Adjustment Factor (GAF) to give us the Benchmark Allocation (from 0.79 to 1.07)
- *Benchmark Allocations, which vary across the province, are designed so that about 50% of existing licensees will have their expected eligible costs fully covered.*
- *The other 50% of licensees will not have their costs covered by the regular (benchmark) funding allocation, but legacy centres with higher costs will be eligible for a Legacy Top-Up (based mostly on 2023 costs).*
- 6. Legacy Top-Up (for existing spaces) or Growth Multiplier (for new spaces) may raise the Benchmark Allocation to give us the Program Cost Allocation
- 7. Profit/Surplus – guaranteed markup of 7%-8% of revenue (much higher % of capital invested)

Cost Drivers give us Benchmarks

- Cost drivers = key factors that influence expected costs. Ministry has estimated benchmarks to reflect effect of cost drivers
- Example: In the Program Staff Component, key cost drivers are the number of licensed spaces in each age group, and the number of days child care is provided per year.
- Benchmarks for licensed spaces are:
 - \$92.03 for each day in an infant space,
 - \$56.48 for each toddler space,
 - \$39.23 for each preschool space and
 - \$15.03 for each kindergarten space

Where Did the Benchmarks Come From?

Costs of operation



Number of spaces

Schedule A: 2025 Benchmark Tables

Child Care Centres

	Variable per operating space-day
PROGRAM STAFFING	
Infant	\$92.03
Toddler	\$56.48
Preschool	\$39.23
Kindergarten	\$15.03
Family age group	\$56.48
Plus, ancillary costs of:	13.4%

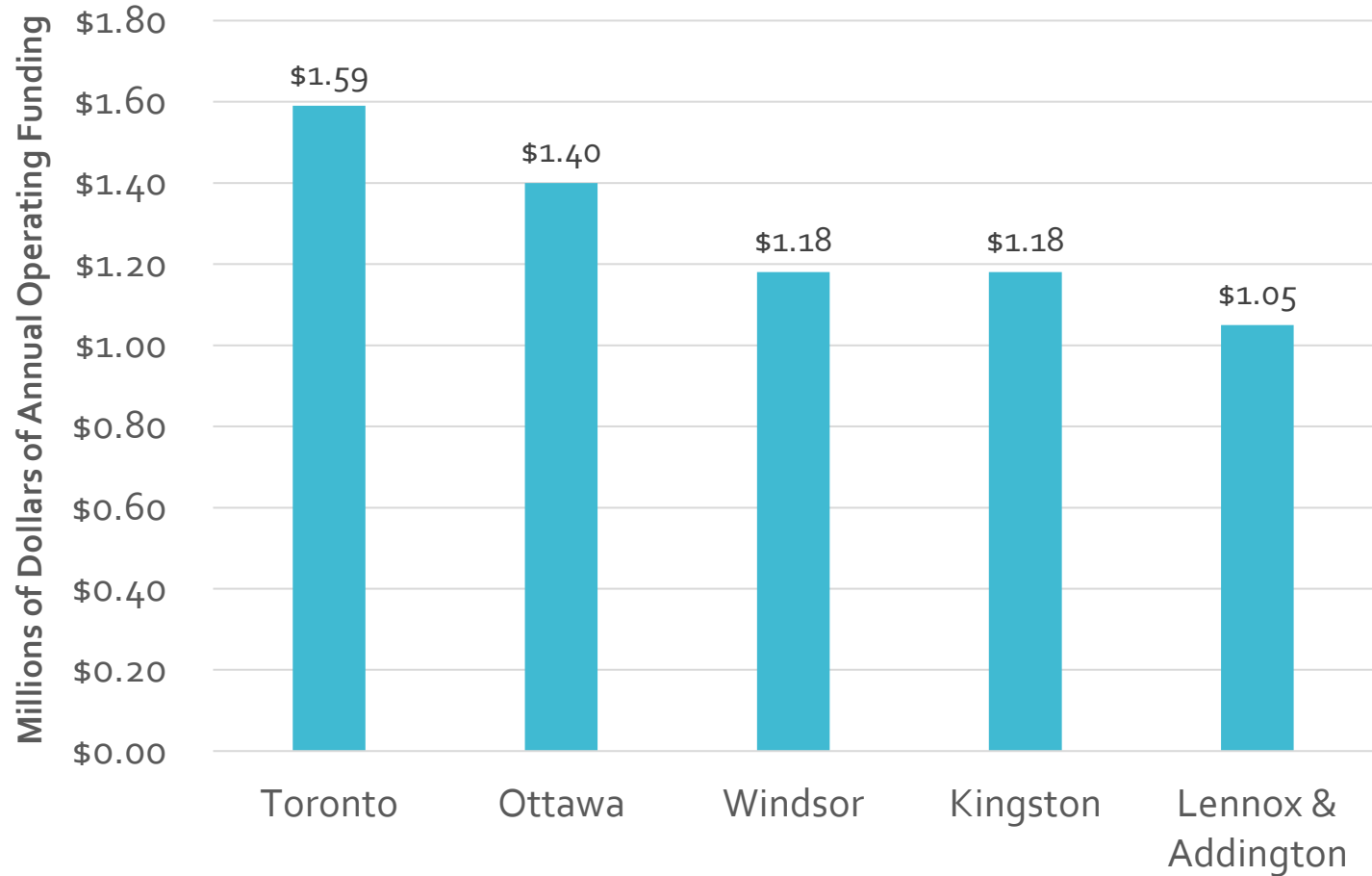
	Fixed per centre per service day
SUPERVISOR	
All centres	\$301.38
Scales with 0-5 operating capacity (from 0% to 100%), weighted by staffing ratio	
Plus, ancillary costs of:	16.2%

	Variable per operating space-day	Fixed per licensed space-day
OPERATIONS		
<i>Community Setting</i>		
Infant	\$1.64	\$15.09
Toddler	\$1.64	\$15.09
Preschool	\$1.64	\$15.09
Kindergarten	\$5.55	\$5.07
Family age group	\$1.64	\$15.09
<i>Public School Setting</i>		
Infant	\$3.80	\$9.61
Toddler	\$3.80	\$9.61
Preschool	\$3.80	\$9.61
Kindergarten	\$3.56	\$1.56
Family age group	\$3.80	\$9.61

	Fixed per licensed space per year
ACCOMMODATIONS	
<i>Community Setting</i>	
Infant	\$2,571.84
Toddler	\$1,972.39
Preschool	\$1,735.54
Kindergarten	\$1,598.66
Family age group	\$2,958.99
<i>Public School Setting</i>	
Infant	\$1,622.91
Toddler	\$974.25
Preschool	\$797.58
Kindergarten	-
Family age group	\$1,241.79

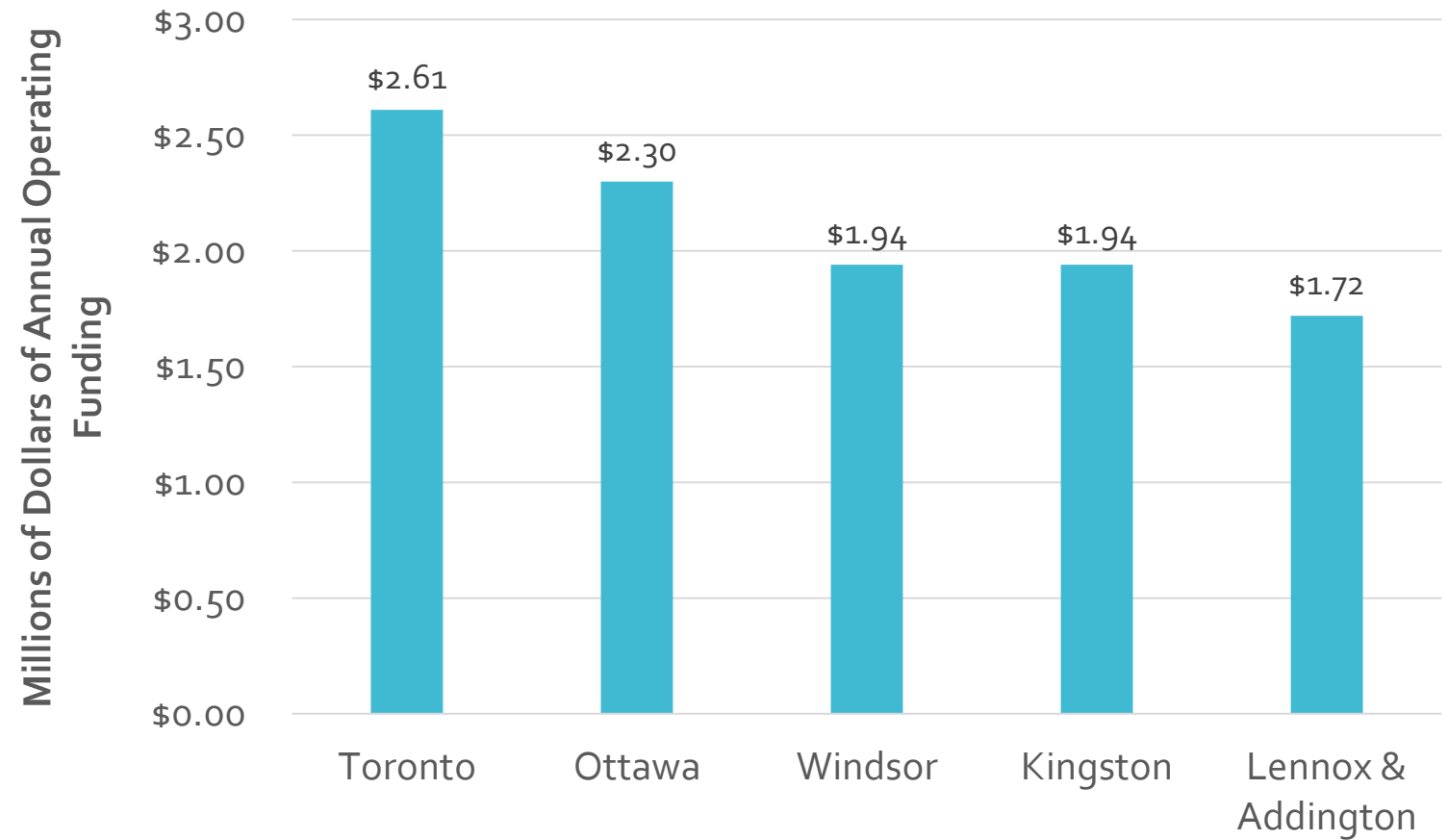
How much will operating funding be for growth spaces? 49 space centre

Operating Funding for **New** Community-Based Spaces Across Ontario - 49 space centre (millions of dollars)

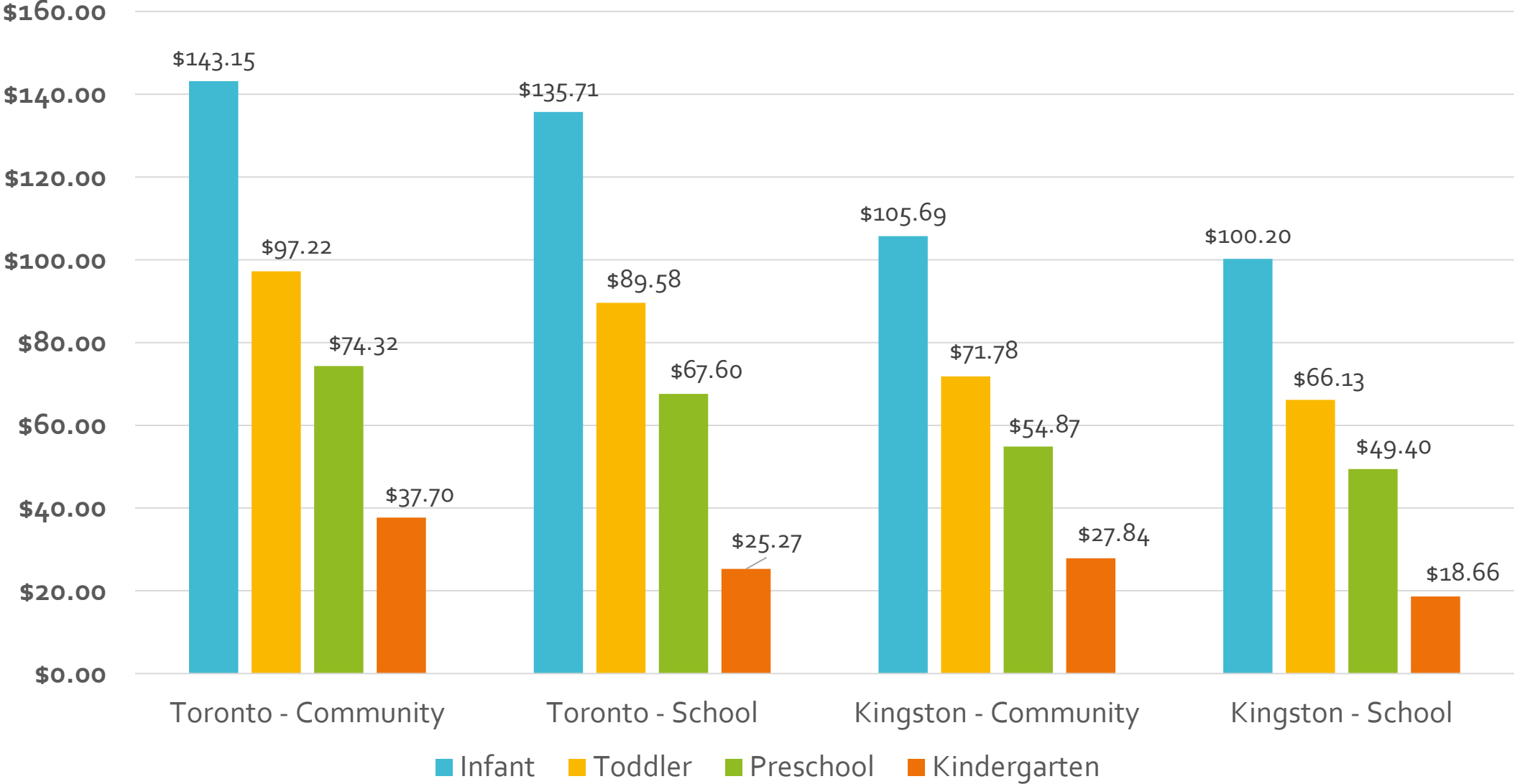


How much will operating funding be for growth spaces? 88 space centre

Operating Funding for **New** Community-Based Spaces Across Ontario - 88 space centre (millions of dollars)



How Daily Operating Revenue Varies With Extra Children by Age – In New Spaces



A new publicly-funded, publicly-managed child care system

- A supply-side funding formula is part of providing universally affordable and accessible child care.
- However, there are problems with the process and the formula for providing child care centre revenues
- The process has been rushed, new systems have been developed on the fly. The rules of the game are unfamiliar.
- The funding formula protects existing centres (through legacy funding) but is not yet sufficient to support growth and necessary staff compensation
- It is a backward-looking funding formula (based on old costs), not forward-looking (what is necessary to incentivize and support quality services across the province).
- We will have to advocate for changes

The potential benefits

- A formula for public funding that facilitates public management of the system - **Yes**
- Financial stability of child care providers - **Yes**
- Promotes quality – ***Not explicitly, but does encourage centres with low costs to spend more***
- Improves recruitment and retention of workforce – ***no wage grid, only wage floor – compensation is too low***
- Ensures accountability for public funds – **Yes**
- Fair and equitable amongst providers – ***problems***
- Supports services for low-income families, children with special needs, professional development of staff – ***unclear***
- Foundation for growth and expansion - ***problems***

What is the funding formula for Home Child Care?

- Provider compensation - \$155.02 per active home day (independent of number of children)
- Visitor compensation - \$21.68 per active home day + 5% benefits
- Agency compensation – \$75,856.39 + \$23.34 per active home day
- Sum these and apply Geographic Adjustment Factor (0.79-1.07)
- It's not enough!!!

Home Child Care

	Variable per active home-day	Fixed per agency per year
HCC AGENCIES		
Provider compensation	\$155.02	
Agency operations	\$23.34	\$75,856.39
Visitor compensation	\$21.68	
Plus, ancillary costs (for visitor compensation):	5.0%	



Positives

- The new funding formula is much better than the continuation of the revenue-replacement model
- Future revenues can now be known with certainty and decisions about expansion can be made
- Legacy cost allocations mean that existing centres with costs higher than benchmark costs can continue to operate – no centre should go out of business
- Centres with low costs will have extra money to spend
- Non-profits will have revenues to build up a surplus fund
- Profit amount is capped (sort of)
- Measures of financial accountability
- Centres have flexibility to spend total Program Cost Allocation as they need

Negatives (1)

- Home child care – does not take into account number of children or hours of service
- Centre child care – does not take into account hours of service per day
- There is no wage grid underlying the formula – encourages keeping wages low
- The funding formula does not reward increases in quality, wages, etc.
- Does not recognize deficits and debts incurred in the last two years!
- Not enough for kindergarten children, and kindergarten children in school age classrooms are not covered
- Where does capital money come from – even for major repairs?

Negatives (2)

- There are substantial guaranteed profits that will attract more for-profit operators (along with self-leasing and pay for owners). There are no provisions to ensure that assets purchased with public funds stay in public/non-profit hands
- The funding formula will choke off growth in new centres with “high” costs - such as municipal centres, unionized centres, centres with high wages and benefits
- Geographic Adjustment Factors and Growth Multipliers play a big role in how much revenue your centre will get but they are not clearly based on true variations in forward-looking costs
- Does not work easily for multi-site child care operators. No ability to move surplus revenue to other sites that are in deficit

Issues and Problems

- Big question: Will funds for **new centres** support true costs at decent wages and quality level?
 - *Currently uncertain and it depends. Without this, nonprofit growth will be halted. In any case, governments must provide supports for expansion.*
- Big problem: Ministry thinks this funding formula is fair because they believe that the survey data they collected on centre costs reflected true variations (geographic and otherwise) in underlying costs.
 - *However, for many costs these variations reflected past policy and program choices. There is not as much variation in underlying costs as the Ministry thinks there is.*
- Funding formula shows what we have always said – profit takes resources away from children’s care.
 - *For-profits will put profit in owners’ pockets. Nonprofits and Publics will use surplus to improve the quality of care. For-profits will spend close to 10% less on children. Over time, quality will diverge even more than at present.*

Bad behaviours encouraged by funding formula

- Reduce hours your centre is open and take lots of children part-time
- Don't serve children who require more intensive staffing. Avoid taking children with special needs
- Keep wages as low as possible. Keep benefits as low as possible. Avoid unionization
- Avoid hiring pedagogical assistants and reduce professional development
- Charge parent fees for services and products outside basic child care
- Only open new spaces in areas with high growth multipliers and geographic adjustment factors
- Establish separate centres for school-aged children. Keep centres small - because of the way supervisors are funded
- Hire less experienced staff, get directors approvals.
- Lease your owned premises to yourself or increase your mortgage payments and increase pay given to owner.

Conclusion

- The cost-based funding formula is much better than the revenue-replacement model
- It's not generous enough for kindergarten children and home child care
- It's unclear whether the revenues are enough to support growth
- Various bad behaviours are encouraged by the design of the funding formula
- The funding formula is supposed to change each year as necessary - GOOD
- Non-profit child care providers need to do their homework about problems and advocate for improvements

- Centres need help with bookkeeping especially those with school age children as well