

Child Care Funding Formula: Technical Paper
2014

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Introduction

The Government is committed to a vision for the early years where Ontario's children and families are well supported by a system of responsive, high-quality, accessible, and increasingly integrated early years programs and services that contribute to healthy child development today and a stronger future tomorrow.

A key step in modernizing the child care sector was the introduction of a funding formula and framework in 2013. The child care funding formula and framework provides CMSMs and DSSABs with flexibility to determine how to allocate child care funding to best meet the needs of children, families and child care operators within their community.

The child care funding formula is evidence-based relying on publicly-available data to drive an equitable funding allocation for municipal child care service managers across the province.

Background

The objective of the child care funding formula was to modernize the approach to operating funding. The child care funding formula better meets the needs of child care operators and parents by allowing for a more equitable approach to funding that responds to demand for services, helps stabilize fees, and improves reliability. 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 funding formula:

- **Efficiency:** Informed by evidence and experience to address inequities in current funding allocations, while distributing and simplifying funding to maximize its impact on the sector;
- **Responsiveness:** Based on the most up-to-date data available, adjusts to changes in the sector, and responds to the need for services;
- **Predictable and Transparent:** Service managers can expect a measure of continuity in funding, subject to publicly available data being updated annually;
- **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 previous child care funding formula was out-dated (based on historical allocations from as far back as 1998) and unreflective of demand. As a result of using data elements which were over 20 years old, the previous formula was not responsive to changing demographics and pressures in growth areas.
- In addition, the previous funding framework was complex, administratively burdensome, and lacked transparency and accountability.
- All of these structural components made it difficult to use resources effectively, particularly as the child care system addresses the transition pressures that follow the full implementation of full-day kindergarten.
- These structural problems also impaired the government's ability to communicate results in addressing these challenges.

Purpose

To support greater transparency for system users, this paper contains details of the underlying formulas and other criteria used in calculating the 2014 child care funding allocations.

The child care funding formula is based on reliable 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.

Overview of the Funding Formula

Components and Allocations

The funding formula includes three main allocation components: Core Services Delivery, Special Purpose, and Capital. The majority of the funding has been 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.

		Funding in 2014 \$ Millions
Core Services Delivery Allocation		\$774.2
Special Purpose	<i>Remote/Rural</i>	\$30.2
	<i>Language</i>	\$53.9
	<i>FDK Transition</i>	\$42.1
	<i>Transformation</i>	\$5.6
	<i>Cost of Living</i>	\$32.3
	<i>Aboriginal</i>	\$2.2
	<i>Capacity Building</i>	\$5.4
	<i>Repairs and Maintenance</i>	\$2.3
	<i>Utilization</i>	\$32.2
Small Water Works		\$0.4
Territory without Municipal Organization		\$1.3
Capital	<i>Retrofit</i>	\$7.1
Total*		\$989.5[†]

* Funding for Small Water Works and Territory without Municipal Organization were allocated based on the higher of 2013 allocation or expenses as reported to the ministry at 2013 revised estimates.

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

Structure

There are eleven components in the child care funding formula (this excludes Small Water Works and Territory Without Municipal Organization which are allocated on a claims-basis).

Allocations for ten of the components (not the Utilization Adjustment) are based on fourteen separate data elements (e.g. percentage of Ontario's 3.9 to 12 year old population, percentage of the average monthly Ontario Works caseload, percentage of the population with no diploma or degree).

- Each data element is used in the calculation of one or more components. For example, child population is used in Core Service Delivery, FDK Transition, Capacity Building, etc.
- More than one data element may be used to calculate a single component. For example, the Language component is based on: 1) the percentage of the population with no knowledge of either official language and 2) the percentage of the Francophone population.

The data elements are used to calculate each CMSM's/DSSAB's share of funding in each component. To illustrate, the Transformation component is entirely based on the CMSM's/DSSAB's percentage shares of the provincial total of four and five year olds:

- A CMSM or DSSAB has 3,201 four and five year olds;
- There are 293,167 four and five year olds in Ontario;
- Therefore using this example the CMSM/DSSAB would receive 1.09 percent $(3,201/293,167)$ of the (\$5,625,000 allocated to the) Transformation component or \$613,125.

The ministry utilizes this percentage calculation methodology to determine each CMSMs/DSSABs share of funding for each component in the child care funding formula. Consequently, each CMSM/DSSAB allocation is based on its percentage share relative to the percentage share of the other forty-six CMSMs/DSSABs.

Data Elements

All data elements have been updated for 2014 allocations, except Low Income Cut Off (LICO) as this information was not available at the time the 2014 allocations were released.

Data Element	Data sources updated in 2014
LICO	
Knowledge of official languages	✓
French speaking	✓
Population density	✓
Rural & Small Community Measure	✓
MOF population projections	✓
Aboriginal population	✓
Education level	✓
Average Ontario Works caseload	✓
Cost of Living	✓

Note: Ministry of Finance child population projections are based on Statistics Canada's 2006 Census data

Core Services Delivery Allocation

The largest portion of funding – \$774.2 million or 78% of total funding (not including Small Water Works and costs for child care in Territory without Municipal Organization) – 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:

- 66.5 percent is based on Statistics Canada's 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;
- 23.5 percent of the allocation is based on population data (17 percent for children 0 to 3.8 years (weighted); 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;
- 5 percent of the funding is allocated based on Statistics Canada's Level of Education Attainment data which measures the percentage of the population with no certificate, diploma or degree; and
- 5 percent of the funding is allocated based on Ontario Works (OW) caseload data provided by the Ministry of Community and Social Services.

Core Services Delivery Allocation Data Elements	Proportion of Funding (%)
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 is based on staffing ratios outlined in the Day Nurseries Act based on age groups. Please see page 12 for DNA requirements.

Funding for the Core Services Delivery allocation provides a greater share of funding to service managers with the largest percentage of children in families with income below LICO threshold.

Each CMSM's and DSSAB's allocation is calculated using the percentage of each data element (e.g. 0 to 3.8 years) as a proportion of the provincial total (e.g. all 0 to 3.8 years).

The data elements above were selected because they are reliable and transparent 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 child care 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:

- Rural/Remote Component – \$30.2 million,
- Language Component – \$53.9 million,
- FDK transition Component – \$42.1 million,
- Transformation Component – \$5.6 million,
- Cost of Living Component – \$32.3 million,
- Aboriginal Component – \$2.2 million,
- Capacity Building Component – \$5.4 million,
- Repairs and Maintenance Component - \$2.3 million, and
- Utilization Adjustment – \$32.2 million.
- Capping Adjustment

The Special Purpose allocation is \$203.9 million, or 20.6percent of the total 2014 child care funding envelope.

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. This measure accounts for 20 percent of the funding and 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 developed by the Ministry of Finance to help inform the Ontario Municipal Partnership Fund (OMPF). This measure accounts for 80percent of the funding for this component.

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 applies to all DSSABs with northern rural populations, plus the City of Greater Sudbury. 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 \$30.2 million (3.1 percent of total funding envelope) in 2014.

Location of Service Manager	Proportion of Funding
Population Density	20%
Rural and Small Community Measure	80%
Northern Rural	3
Other Rural	1

Language Component

This 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 of the funding is allocated based on those who speak French most often at home and 65 percent of the \$53.9 million is allocated based on those who have no knowledge of either official language.

This component includes 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:

- CMSMs and DSSABs with populations greater than 150,000 that have more than five percent of their population identified as speaking French most often at home are multiplied by a factor of two; and
- CMSMs and DSSABs with populations greater than 150,000 that have more than twenty percent of their population identified as speaking French most often at home are scaled by a factor of three.

The Language Component is \$53.9 million (5.5 percent of total funding envelope) in 2014.

Estimated percentage of those who speak French most often at home	Proportion of Funding
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 19.99%*</i>	<i>2</i>
<i>20% or more*</i>	<i>3</i>

* Total population must also be greater than 150,000

Full-Day Kindergarten Transition Component

Full-day kindergarten (FDK) Transition funding is made available to support the viability of the system during the significant sector transformation which has occurred during the implementation of full-day kindergarten. FDK 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 weighted 0 to 3.8 year old population in the province.

The FDK Transition Component is \$42.1 million (4.3 percent of the total funding envelope) in 2014.

Transformation Component

Transformation funding will support the re-engineering of the child care sector as it transitions to align with FDK. This funding supports the *Schools-First Child Care Capital Retrofit Policy* and the 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 using the percentage of four and five year old population in the province.

The Transformation Component is \$5.6 million (0.6 percent of total funding envelope) in 2014.

Cost of Living Component

This 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 from Statistics Canada's 2010 Survey of Household Spending (SHS), which is based on household expenditure estimates and population size; and
- Large 0 to 12 child populations (greater than 125,000) to capture the unique issues facing communities with large child populations.

The Cost of Living Component is \$32.3 million (3.3 percent of total funding envelope) in 2014. Factors were derived from the SHS data to determine a weighting of each CMSMs and DSSABs total population data based on the size of the area of residence.

Cost of Living Component	Proportion of Funding
Household Spending Survey	75%
<i>Population of 0 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

This component recognizes the unique costs of providing culturally appropriate child care services for those families identifying themselves as Aboriginal living off reserve*. Funding is allocated using Statistics Canada data on the proportion of Aboriginal children between the ages of zero to four with Aboriginal ancestry.

The Aboriginal Component is \$2.2 million (0.2 percent of total funding envelope) in 2014.

* Statistics Canada data collected in the 2011 National Household Survey

Capacity Building Component

This component aims to improve the provision of high quality child care by making funding available for professional development opportunities. Such programs align with the principles outlined in the [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 \$5.4 million (0.5 percent of total funding envelope) in 2014.

Capacity Building Component	Proportion of Funding
0 to 3.8 years (weighted)*	33%
3.9 to 12 years	67%
* The weighting is based on the staffing ratios outlined in the <i>Day Nurseries Act</i> based on age groups	

<i>Day Nurseries Act</i> – 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
44 months of age or over and up to and including 67 months of age as of August 31 of the year	1 to 10
56 months of age or over and up to and including 67 months of age as of August 31 of the year	1 to 12
68 months of age or over as of August 31 of the year and up to and including 12 years of age	1 to 15

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 based on the proportion of 0 to 12 year olds and is \$2.3 million.

Utilization Adjustment

In response to suggestions made by municipal members of the CCFFWG that the level of voluntary CMSM and DSSAB contributions should be used as one way to assess funding need and demand for child care services the utilization adjustment was developed.

Utilization funding encourages service managers to contribute more than their mandatory cost share so additional resources flow into child care services. The calculation for 2014 utilization adjustments uses 2012 financial statements data, specifically a CMSM's/DSSAB's over or under-contribution so that total utilization funding is directed to those CMSMs/DSSABs who exceeded their municipal cost share in 2012.

In 2014, utilization funding equals \$32.2 million (3.3 percent of provincial funding), plus 50% of total under-spending by CMSMs/DSSABs province-wide in 2012. A CMSM's/DSSAB's utilization allocation equals its proportionate share of all utilization funding available and is calculated by:

1. Dividing a CMSM's/DSSAB's specific over-contribution in 2012^{*} by the over-contributions of all CMSM/DSSAB's province-wide in 2012
2. Applying the ratio generated in the step above to the amount of total utilization funding available

For CMSMs/DSSABs that did not contribute their minimum cost share in 2012, utilization will result in decreased funding in 2014 as long as the CMSM's/DSSAB's allocation (before the utilization adjustment and capping adjustment) has increased. The utilization adjustment is based on subtracting one-half of a CMSM's/DSSAB's under-contribution by their total reduction in funding in 2014, compared to 2012.

Capping Adjustment

In order to allow service system managers to adjust to their new evidence-based allocations, last year the ministry implemented a 10 percent cap for all CMSM's/DSSABs that saw a decrease in funding, when compared to 2012 allocations. In 2014 the ministry continued with the capping mechanism.

This means that no CMSM's or DSSAB's funding has decreased by more than 10 percent, when compared to its 2012 funding allocation.

^{*} CMSMs/DSSABs that experience an increase in funding, in excess of their 2012 over contribution, are not eligible for utilization funding.

For those CMSMs/DSSABs that received funding from capping, the capping allocation is equal to:

- The difference between 90 percent of a CMSM/DSSAB's 2012 allocation minus their 2014 allocation (excluding their cap funding) – this includes TWOMO ...

For those CMSMs/DSSABs that contribute to the capping mechanism because their 2014 allocation exceeds their 2012 allocation by more than ten percent, their capping contribution has been determined as follows:

1. Calculate the total amount of capping funding needed so that no CMSM/DSSAB allocation in 2014 decreases by more than ten percent compared to their 2012 allocation
2. Subtract 110 percent of a CMSM's/DSSAB's 2012 allocation from its 2014 allocation (excluding their cap contribution)
3. Determine each CMSMs/DSSABs proportional contribution to funding the amount of capping funding needed in step one above by dividing the amount in step two by the total amount province-wide
4. Multiply the percentage generated in step 3 to the amount in step 1 to identify a CMSM/DSSAB's contribution to the capping mechanism

Small Water Works and Territory without Municipal Organization

Small Water Works

The ministry provides funding to support small water works (\$0.4 million) to support costs related to small water systems for licensed child care centres (e.g. wells, septic systems).

CMSM/DSSAB small water works allocations are based on the higher of their 2013 allocation or expenses as reported to the ministry at 2013 Revised Estimates.

Territory without Municipal Organization (TWOMO)

The ministry provides funding to support territories without municipal organization (\$1.3 million). TWOMO funding only applies to DSSABs for territory without municipal organization (e.g. area of any municipality or First Nation) and is intended to help support the cost of child care services and service system administration provided in territory without municipal organization.

As TWOMO funding is claims based, DSSAB entitlement will equal reported expenses. DSSAB allocations are based on the higher of 2013 allocation or expenses as reported to the ministry at 2013 Revised Estimates.

Capital Retrofits

Capital Retrofit funding will allow operators to re-purpose existing community child care Junior Kindergarten/Senior Kindergarten spaces to serve younger age groups as four and five year olds enrol in full-day kindergarten (FDK). Minor capital funding helps transition the child care sector as it adapts to the implementation of FDK. The allocation is determined by the percentage of four and five year olds and is \$7.1 million.

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 10 percent of any CMSMs/DSSABs 2014 total allocation minus the TWOMO allocation.
- The expenditure benchmark for Special Needs Resourcing shall not represent an amount less than 4.1 percent^{*} of any CMSMs/DSSABs 2014 allocation Excluding TWOMO funding.

The ministry continues to monitor expenditures for these two program categories.

^{*} CMSMs/DSSABs can spend a greater portion of their allocation on SNR depending on local need.

Cost Share Requirements

The child care funding formula streamlines cost sharing and makes 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 when funding is increasing. Where on-going funding is decreasing, cost share requirements are being reduced in proportion to the decrease in funding.

Where there is a reduction in funding under the child care formula CMSMs/DSSABs will see their cost share requirements reduced 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 cost share requirement does not exceed the total 2012 minimum cost share amount.
- The reduction in the cost share requirement equals the percentage change in 2014 funding compared to 2013 multiplied by CMSM's/DSSAB's 2013 minimum cost share amount.

Reporting and Accountability

Reporting Requirements

Financial reporting, monitoring and auditing are important elements of an overall accountability framework. The ministry has in place simplified reporting requirements that allow better matching of expense reporting to program costs to ensure accountability and transparency across the sector.

CMSMs and DSSABs are required to provide the ministry with detailed financial information on expenditures. Reporting requirements and timing are outlined in the 2014 Ontario Child Care and Service Management Funding Guideline.

2014 Ontario Child Care and Service Management and Funding Guideline

The ministry shared the 2014 Child Care Service Management Guidelines to CMSMs/DSSABs in December 2013 to support the ongoing implementation of the child care funding formula.

Further Information

If you have any questions about the information in this paper, please contact your Ministry of Education Financial Analyst. If you have any questions regarding the 2014 *Ontario Child Care and Service Management Funding Guideline* please contact your Child Care Advisor. Both the Guideline and Technical Paper are posted on the FAAB website.

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