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MEMORANDUM TO: Chief Administrative Officers, CMSMs/DSSABs
General Managers/Commissioners, CMSMs/DSSABs
Children's Service Managers, CMSMs/DSSABs

FROM: Pam Musson
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DATE: December 18, 2012

SUBJECT: **Transitioning to Ontario's New Child Care Funding Formula
and Funding Framework**

The discussion paper, *Modernizing Child Care in Ontario*, began a conversation that will help move Ontario towards a higher quality, accessible and co-ordinated early learning and care system for all children. As noted in the discussion paper, the government recognizes that funding for child care must include an efficient funding formula which should be transparent and informed by evidence and experience to support consistency in approach, accessibility for families and quality for children and child care operators. A broad range of stakeholders and partners supported this objective in the feedback through the consultation. In addition, in our communication to you in July of this year, we noted that the government intended to introduce a new approach to funding child care in 2013 and "will be working with its partners to look for opportunities to modernize Ontario's child care system so that it better reflects the needs of children and families" (*ELCC8: New 2012 Child Care Funding*).

The purpose of this memorandum is to provide Consolidated Municipal Service Managers (CMSMs) and District Social Services Administration Boards (DSSABs) with information about Ontario's new funding formula and funding framework for child care, which will take effect in 2013. By funding formula, we mean the method of allocating provincial funds for child care

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among CMSMs/DSSABs. By funding framework we mean the rules associated with how those funds may be spent, reporting requirements for expenditures and service levels, and the tracking of results achieved.

This is an exciting time for child care but we also recognize this is a time of transition. As such, it is important that we continue to build upon the strong and collaborative relationship that has developed between the Province and our service system manager partners since child care transferred to the Ministry of Education almost two years ago. We thank you for the advice and wisdom you have shared with us, particularly over the past several months. Your feedback has been instrumental in informing the new funding framework for child care. We will continue to rely upon your expertise and experience as service system managers, as we work together to implement the new funding framework.

Need for Change

As the child care sector undergoes a transformation to align with the implementation of full day kindergarten, a new funding formula and more flexible funding framework will help build a child care system for tomorrow and the future beyond.

The current funding formula is out-dated, based on historical allocations, and is unreflective of demand. In addition, the current funding framework is complex, administratively burdensome, with multiple overlapping funding categories, and has limited flexibility making it difficult to meet the needs of local communities in Ontario.

The new funding formula is a more transparent, evidence-based and equitable approach to allocating provincial child care funds that respond to demands for services. The new funding framework provides municipalities' flexibility and tools to better manage the child care system at a local level and address issues such as fees and the availability of service. Together these elements will:

- Allow municipalities – particularly in growth areas - the capacity to increase service stability and access for both full fee paying and subsidized families, reducing waitlists and mitigating closures of child care centres.
- Respond to the demand for services and help stabilize fees and improve reliability of child care to better support parents as the system is transitioned to work with full day kindergarten.

Streamlining the rules and reporting under the framework for child care funding allows the government and its municipal partners to deliver more effective service at a better value for taxpayer dollars as well as reduce administrative burden.

Background and Objectives

Throughout the summer and fall, the government, working with municipal partners, developed a new funding formula and framework for child care in the province.

The government sought input on the general approach to a simpler and more transparent child care funding formula and framework through the written feedback on the discussion paper. In addition, the Ministry of Education formed a Child Care Funding Formula Working Group (CCFFWG) established 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 CCFFWG included 15 municipal members whose role was to provide advice on the design of a simplified funding

framework and transparent funding formula for child care in Ontario. Ministry staff along with municipal members of the CCFFWG focused on the following broad objectives to guide the development of the new funding formula and funding framework:

- **Efficiency:** Informed by evidence and experience to address inequities in current funding allocations and distribute and simplify funding to maximize its impact on the sector;
- **Responsiveness:** Based on up-to-date data, allows for changes in the sector, and responds to the need for services;
- **Predictable and Transparent:** Service managers are able to estimate their future years budgets with a reasonable degree of confidence;
- **Quality:** Support consistency in approach, access for families and provides high quality programs for children/operators; and
- **Accountability:** Use enveloping and reporting requirements which support funding objectives.

These broad objectives were instrumental in guiding the development of a new funding formula which is transparent and evidence-based, and relies on publicly-available data to drive an equitable funding allocation to child care service managers across the province.

A similar series of guiding considerations were developed by the CCFWG to address the potential impacts of a new funding formula on municipal budgets. They included an understanding that:

- The intention of the new funding formula is neither the uploading nor the downloading of child care responsibilities between the Province and the municipal sector;
- The ministry would avoid transferring known financial risks to service system managers; and
- The ministry would make efforts to mitigate any redistribution of funds among CMSMs/DSSABs as a result of the new funding formula:
 - In the design of the formula;
 - In the phase in of the formula;
 - In the allocation of flexible, one-time mitigation funding.

Lastly, the CCFWG identified the importance of continued dialogue between the province and the municipal sector with regard to the ongoing implementation, communication and review of Ontario's new child care funding formula and framework. The ongoing dialogue will build on the principles of collaborative partnership that are guiding the relationship between CMSMs/DSSABs and the Ministry of Education in the delivery of child care in Ontario. This will strengthen our ability to learn together about the benefits of, and necessary improvements to, the funding formula and framework during this significant period of transition.

Benefits of the New Funding Formula

The new funding formula better meets the needs of children, families and child care operators by responding to changing population and demographics across the province.

The new funding formula is based on publicly available, third-party measures that more accurately reflect child care demand and program cost structure at a community level than current historical allocations. These data elements are drawn from Statistics Canada sources

and, under Ontario's new child care funding formula, determine 93% of provincial child care funding provided to CMSMs/DSSABs¹.

The key data elements include:

- *Child Population* (0 to 12 year olds) from Statistics Canada and Ministry of Finance which assesses the demand for licensed child care services across the province;
- *Demographic* changes to measure demand for *fee subsidies*, such as Low Income Cut Off (LICO), Level of Education Attainment and Ontario Works Caseload data; and
- *Demographic* changes to measure demand for *other child care cost drivers*, such as cost of living indicators, aboriginal population data, French speaking populations and populations which have no knowledge of either official language, and measures related to rural and remote communities.

As a result of the extensive use of publicly available data, CMSMs/DSSABs will have the capacity to more easily anticipate future funding. This is another very significant benefit of the new funding formula for CMSMs/DSSABs, in support of your work leading and conducting multi-year service planning in your communities.

The CCFFWG reviewed many data elements ultimately choosing the ones that were felt to best predict the key cost drivers. Additional details regarding data elements can be found in the 2013 Child Care Funding Technical Paper at http://faab.edu.gov.on.ca/CCMemos_2012.htm.

The technical paper details the data sources, allocation calculations and rationale for all the allocations in the funding formula. Table A to this memorandum shows the formula driven funding allocations for all CMSMs/DSSABs. It is a clear demonstration of the commitment to ongoing evidence-based transparency that accompanies the introduction of Ontario's new child care funding formula and framework.

Funding Formula Structure

In 2013, \$922.1 million in ongoing funding will be allocated under Ontario's new funding formula for child care to CMSMs/DSSABs. The new funding formula includes three main allocation components: Core Services Delivery, Special Purpose, and Capital.

The majority of the funding – \$718.4 million in 2013 (or 78% of total funding) – will be allocated via 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 through General Operating Grants, to support Pay Equity obligations, and to assist eligible families with access to licensed/accredited child care and early childhood education programs through the provision of fee subsidy and special needs resourcing supports.

The Special Purpose Allocation is in response to the unique costs of providing services in certain areas and to certain target populations. The Special Purpose Allocation includes the eight components listed below and is projected to be \$193.2 million in 2013 (or 21% of total funding):

- Rural/Remote Component – \$28 million,

¹ The remaining 7% of provincial funding is driven by Ontario Works caseload data (4%) and CMSM/DSSAB spending patterns (3%).

- Language Component – \$50 million,
- FDK transition Component – \$38.5 million,
- Transformation Component – \$7.5 million,
- Cost of Living Component – \$30 million,
- Aboriginal Component – \$2 million,
- Capacity Building Component – \$5 million,
- Repairs and Maintenance - \$2.2 million, and
- Utilization Component – \$30 million.

In addition, the ministry will continue to provide funding to support Small Water Works (\$0.4 million) and Territories without Municipal Organization (\$1.3 million). Expenses under these allocations are claims based and funding has been allocated to eligible CMSMs and DSSABs.

The Capital Allocation is provided to assist CMSMs and DSSABs in maintaining and improving child care infrastructure in the province and is projected to be \$8.8 million in 2013 (or 1% of total funding envelope) in 2013. The Capital Allocation will support capital retrofits to allow operators to re-purpose existing community-based centres to serve younger age groups.

Above and beyond the funds allocated through Ontario's new funding formula, the Province is also allocating a total of \$50 million in one-time mitigation funding as one key tool to address the near term impacts of funding changes and support the transition to the new funding approach.

This means that in 2013 Ontario is allocating approximately \$972 million in total funding to CMSMs and DSSABs for child care. This compares to 2012, when \$853 million in funding was allocated to CMSMs and DSSABs.

Transition to the New Funding Formula

In July of 2012, we sent you a memorandum, which noted, "The new investment for fiscal year 2012-13 includes one-time funding of \$50 million which is intended to mitigate the potential impact of a new funding formula on individual CMSMs/DSSABs, by reducing year over year decreases for some CMSMs/DSSABs that may result from the redistribution of funds as the new formula is implemented" (*ELCC8: New 2012 Child Care Funding*).

This funding, along with additional strategies informed by the advice of the CCFWG, are permitting the introduction of a new funding formula in a measured way, that allows communities to plan for the changes ahead. Moreover, as a result of these strategies, no CMSM or DSSAB will actually experience a change in funding levels for almost four years. In fact, as a result of the combined effect of mitigation strategies, mitigation funding and an increase in ongoing funding for child care, all CMSMs and DSSABs will see increases in total funding allocations in 2013.

In addition, all new funds are being invested in the formula by the Province as 100% provincial contributions. This is consistent with the approach the government has pursued in providing new child care funding since 2003 without requiring any municipal cost share. The dollar value of CMSMs/DSSABs minimum required cost shares remain the same as they were in 2012, or they are reduced.

These results have been achieved by using a number of mitigation tools to reduce redistribution impacts among CMSMs and DSSABs, building on the guiding considerations developed in the CCFWG and described above.

- In formula design, with specific *Special Purpose Allocations* to address the specific needs and costs of certain populations (e.g. rural/remote communities, francophone communities, large urban areas etc).
- In formula phase in, there is a *10% cap* on reductions to ongoing CMSM and DSSAB allocations compared to original 2012 allocations.
 - Those increasing by more than 10% are reduced in order to offset those with large decreases (before mitigation).
 - This phase-in strategy reduces any immediate redistributive impacts to CMSMs and DSSABs, recognizing that any substantial changes to allocations (either increases or decreases) cannot be immediately implemented without disruptions to the current child care system.
- In the distribution of \$50M in one-time mitigation funding among those CMSMs and DSSABs that see a reduction in their ongoing funding in 2013, immediate impacts of redistribution are addressed and CMSM/DSSABs will have time to adjust service plans to new ongoing funding levels. Funds will be provided in 2013, placed in reserve and drawn down over time. The distribution of mitigation funds compensate for the recipients' change in ongoing funding between 2012 and 2013 for nearly 4 years.
- In cost share, CMSMs and DSSABs will see the same dollar value of minimum cost share requirements as in 2012, even where funding increases.
 - For those CMSMs and DSSABs that receive mitigation funding, they will also see a reduction in their 2013 cost share that is proportionate to the change in their ongoing funding.
 - For those municipalities that have contributed above their minimum required cost share, a new Utilization Allocation based on prior year spending patterns rewards those additional contributions with additional provincial funding. For those that historically underspent their allocation, 50% is reinvested through this allocation as well. The additional contributions and under-spending is used as a proxy of the demand for child care services and changes in child population.

CMSM and DSSAB Total Allocations

An overview of provincial child care allocations for 2013 is included as Table A and B of this memorandum. Further details about your allocation will be included in your 2013 Child Care Service Agreement.

Expenditure Benchmarks:

Administration Expense and Special Needs Resourcing (SNR)

In order to ensure spending in administration is maintained at reasonable levels and SNR funding is protected, the ministry has developed expenditure benchmarks as part of the 2013 service agreement. The expenditure benchmark for administration is the amount that is the lower of either 10% of total CMSM/DSSAB allocation or the administrative expense reported in CMSMs/DSSABs 2011 Financial Statement submission.

- For CMSMs/DSSABs with an allocation increase in 2013, the 2011 Financial Statement amounts will be adjusted upward to reflect increases in funding levels.
- For CMSMs/DSSABs with an allocation decrease (excluding mitigation funding) or who remain constant to 2012 levels, 2011 Financial Statement amounts will be not be adjusted.
- A portion of your allocation has been provided as 50-50 cost shared for administration.

The expenditure benchmark for Special Needs Resourcing shall not represent an amount less than 4.1% of the CMSMs or DSSABs total allocation. CMSMs or DSSABs may spend over and above the 4.1% minimum on SNR should the demand for SNR services be prevalent. The minimum expenditure requirement will be noted in the budget schedule in the 2013 contract. The ministry will continue to monitor expenditures for these two program categories.

Simplified Funding Framework

The new funding framework opens up flexibility for CMSMs/DSSABs to use funding to meet provincial objectives, consistent with their local service plans and community needs.

Overlapping funding lines have been eliminated and reporting between the Province and CMSMs/DSSABs is being simplified and streamlined. We expect a significant reduction in the number of data elements CMSMs/DSSABs will report to the Province. In addition, the improved reporting and data collection will also strengthen accountability.

Antiquated and inflexible requirements that limited CMSMs/DSSABs ability to flow funds directly to operators with complex wage subsidy rules and calculation requirements have been eliminated. These have been replaced by a new General Operating Allocation framework that provides more flexibility and can be used to address local priorities and challenges including the sustainability of child care for younger children.

While this increased flexibility has been introduced, it is understood that during a year of transition to the new funding framework, many CMSMs/DSSABs may wish to use prior program rules or guidelines to assist in the calculation of funding supports to child care operators. The new framework is flexible enough to permit such an approach, if desired, while CMSMs/DSSABs develop new local policies to align with the General Operating Allocation.

Child Care Service Agreement and Guidelines

Additional details on the new funding formula are available in the consolidated 2013 Child Care Service Management and Funding Guideline. This guideline is a consolidation and revision of previously existing child care guidelines and will support CMSMs and DSSABs with the implementation of the new funding framework. The guideline will be treated as a working document throughout the 2013 transition year. As your feedback is important to us, CMSMs and DSSABs will have the opportunity to share their input on the new guideline in the New Year.

The new guideline can be found at <http://faab.edu.gov.on.ca/CCGuidelines.htm>

CMSMs and DSSABs will receive their 2013 Child Care Service Agreement as well as detailed information on next steps for the 2013 child care contracting process under a separate memorandum within the next few days.

Support and Resources

In support of the introduction of Ontario's new funding formula and funding framework for child care, the Ministry of Education is holding a webinar at 1:00 pm today, December 18, 2012. You will have received an invitation by email to participate. If you are unable to do so, or if you wish to refer to the webinar again, the webinar and slide presentation will be posted on the ministry website as an additional resource. Your Child Care Advisor will be available to provide you with support and will be following up with you shortly to discuss any questions that you may have about the new 2013 child care funding formula and framework.

Thank you for your cooperation. The ministry will continue to consult with municipal partners on a quarterly basis to update the funding formula and funding framework as required. We look forward to a continued collaborative relationship with our municipal child care partners as we implement this important change.

Original signed by:

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Table B: Projected 2013 Child Care Funding Details		
Provincial Total		
Allocations for Operating and Other Purposes		\$
Core Service Delivery Operating Allocations		
General Operating		204,732,788
LICO		477,709,839
Ontario Works		35,918,033
Special Purpose Operating Allocation (100% Provincial Contribution)		
Language		
No knowledge of official languages		32,500,000
French only		17,500,000
Aboriginal		2,000,000
Cost of Living		30,000,000
Rural/Remote		
Population density measure		5,600,000
Small community measure		22,400,000
FDK Transition		38,462,800
Transformation		7,500,000
Capacity Building		5,000,000
Small Water Works		-
Territory Without Municipal Organization- Child Care (TWOMO) (Claims based)		1,300,000
Repairs and Maintenance		2,206,140
Utilization Adjustment		30,000,000
Capping Adjustment		-
Total Operating Allocation		912,829,600
Child Care Capital		
Capital Retrofits		8,824,560
Total Allocation		\$ 921,654,160
Core Service Delivery Allocation by Cost Sharing Components		<i>Minimum Cost</i>
	<i>Ministry Allocation</i>	<i>Share Requirement</i>
<i>Cost Share Requirement - 100/0</i>	<i>197,087,777</i>	<i>-</i>
<i>Cost Share Requirement - 80/20</i>	<i>497,321,673</i>	<i>124,330,418</i>
<i>Cost Share Requirement - 50/50</i>	<i>23,951,210</i>	<i>23,951,210</i>
<i>2013 Ministry Allocation and Minimum Cost Share Requirement</i>	<i>718,360,660</i>	<i>148,281,628</i>
<i>2012 Minimum Cost Share Requirement</i>		<i>150,213,666</i>
<i>% Change From 2012</i>		<i>-1.3%</i>
Mitigation Funding		
Mitigation Funding 2013 - Reserve Funding		\$ 50,000,000
* 2013 Total Allocation does not include Small Water Works funding		