

# HOME CHILD CARE ASSOCIATION OF ONTARIO

## FUNDING HOME CHILD CARE

### MOVING TO BASE FUNDING

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#### Introduction

As the provincial government moves forward with plans to modernize child care, a revamped funding model for the licensed home child care sector is a critical component of this exercise to support agency stability and access for families to a quality service. In December 2012, the province made a significant step forward, introducing a new funding model that gives much more flexibility to CMSMs and DSSABs with respect to how they allocate their envelope of child care funding. CMSMs and DSSABs will be able to more effectively reflect the diverse needs of their communities with this new flexibility. At the same time, the **Home Child Care Association of Ontario** encourages the provincial government to take a leadership role in this next phase to ensure that CMSMs and DSSABs enter into new funding arrangements with not for profit third party organizations that will address major obstacles to viability and access.

The **Home Child Care Association of Ontario** is recommending the introduction of a “base funding” mechanism. This report defines base funding, describes three current funding structures in place across Ontario, identifies the challenges with each of the existing models and makes specific recommendations for moving forward with a base funding mechanism. This brief document has three sections and an appendix describing three existing funding models:

- 1) A working definition of base funding
- 2) How a base funding model will modernize the licensed home child care sector in Ontario and can be achieved within the currently available funding.
- 3) Moving forward – Additional challenges facing the licensed home child care

Appendix One: An analysis of three existing funding models in Ottawa, Toronto and Waterloo.

#### Section One: A Working Definition of Base Funding

While there are many different definitions of base funding, for the purposes of this document base funding is defined as follows:

***Core funding provided directly to the home child care agency by the local CMSM/DSAAB that covers all fixed administrative costs as demonstrated initially by a budget submission and is confirmed through the submission of audited financial statements. The agreed upon annual total funding would be paid out on a quarterly basis.***

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Fixed costs would recognize:

- Salaries and benefits for home visitors
- Rent and/or occupancy costs
- Program costs
- Professional development costs
  - For home visitors
  - For independent contractors
- Insurance
- Administration (billing, record keeping )
- Travel
- A relative share of the central administration costs of the agency/organization including but not limited to:
  - Salary and benefit of the CEO/Executive Director
  - Central Administration including but not limited to audit costs, general insurance, advertising

### **Section Two: A proposal for strengthening the licensed home child care sector by introducing a base funding model throughout Ontario**

A modernized funding model for licensed home child care must achieve three objectives:

- 1) Recognize the actual administrative costs incurred by a licensed home child care agency through funding that is consistent, sufficient and that enables agencies to plan effectively to meet the needs within their own unique communities.
- 2) Adequately compensate the independent contractors who provide care in their own homes in partnership with licensed home child care agencies, so that they are remunerated at a market rate or a rate comparable with unregulated providers. This will enable them to be financially viable and therefore more likely to remain committed to being part of a licensed, quality system.
- 3) Increase the supply of regulated, affordable and accessible high quality licensed home-based early learning and care throughout the province.

This paper focuses on the first objective – addressing the on-going challenge of effectively funding administrative costs. The provincial modernization initiative provides an opportunity to implement a solution. It is the understanding of the **Home Child Care Association of Ontario** that the recent changes to Ontario’s child care funding model, released on December 18, 2012

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provides a real and tangible opportunity to modernize the way in which child care is funded across Ontario. This is critical to the entire sector and is of crucial importance to the licensed home child care sector.

The licensed home child care sector is a vital component of a modernized child care system that is focused on children from birth to 12 year old children. As the system moves towards providing early learning and care for younger children, the capital and operating costs of increasing the availability of care for infants and toddlers is significant. In this time of economic constraint, capital funding is difficult for governments at all levels to find. Licensed home child care has the capacity to expand quickly and without major capital and operating costs to increase the availability of high quality care.

However, the common per diem based funding model for licensed home child care across the province is operationally ineffective and limits the ability for the licensed agency to respond with timely expansion. The ebb and flow of children in and out of home child care especially in high needs communities is an important factor to consider when determining how to fully support the sector enabling it to meet the needs of children and families. Core funding that does not fluctuate with every minor shift in enrollment is essential to stabilizing home child care agencies. A stable licensed home child care system is an essential component of a healthy early learning and care sector able to meet the needs of children and their parents.

**The Home Child Care Association of Ontario recommends an immediate move to base funding of the administrative costs attached to delivering high quality early learning and care through the licensed home child care sector.**

To ensure accountability the following features would be put in place:

- 1) Agencies would submit a budget, based on licensed capacity, identifying the total administrative costs associated with delivering a high quality early learning and care home child care program.
- 2) The agency and the local CMSM/DSAAB would agree on a target total number of days of care to be provided on an annual basis.
- 3) The local CMSM/DSAAB would agree on an annual administrative budget for the program.
- 4) Agencies would submit audited financial statements at year end as well as enrollment information for accountability purposes.

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- 5) If the number of days of care provided was within ten percent (10%) of the agreed upon number, no adjustment would be made. If the number of days of care was above or below a 10% difference then adjustments to the administrative costs would be made.

The existing funding models are tied to enrollment as agencies are funded on a per child basis with little or no recognition of the fact that many of their costs are fixed and do not fluctuate based on enrollment. Vacancies can mean the difference between being able to respond to the need for care, on-going financial viability and closure.

An example:

A licensed Home Child Care Agency typically provides support and service for an average of 250 children in a calendar year. Sometimes their monthly enrollment is as high as 280 and in other months drops to 220. The agency would calculate and be funded for their fixed operating costs on the average of 250 children.

A base funding model for the expected enrollment of children ensures an agency is able to balance the natural ebb and flow of licensed home child care enrollment without over committing the CMSM. The agency has the staff resources in place to respond to minor increases in demand for licensed home child and maintains their staff resources during brief periods of lower enrollment.

### **Section Three: Moving Forward**

Addressing the issues related to the way licensed home child care is funded represents a significant step forward in resolving the challenges facing the sector. But it is not the only challenge.

There are three additional contributors to the challenge the licensed home child care sector is facing:

- 1) **Remuneration of Providers:** Provider rates are low and in many communities, providers can secure higher per diem rates providing care outside the licensed sector.
- 2) **Ratios:** Different ratio regulations for the licensed and unlicensed providers mean that unlicensed/ informal care is more lucrative for providers. Providers in the

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informal, unlicensed system do not have the same restrictions on the number of children under four for whom they can care. As well, providers in the licensed sector must count their own children under six when determining the number of children for whom they can provide care. In addition to having the potential of reducing the quality of care children receive, this makes it difficult for agencies to recruit qualified providers further destabilizing the sector.

- 3) **Affordability:** Fewer and fewer families are able to pay the full cost of licensed quality child care, in home or group settings, even if they are able to find a vacant space.

Given that providers have the option to provide service to families in either the licensed or unlicensed sector, the increased requirements on providers when affiliated with a licensed agency, while increasing quality, also serve to motivate providers to join the unlicensed sector.

Currently, the licensed child care sector is expanded based on agency intent. Licenses to establish both home and group care are issued once the organization/agency requesting the license has met all criteria. There is no existing capacity for the province to refuse to license a program for any reason other than that it does not meet existing *Day Nursery Act* criteria. Consequently, there are communities where there is, relatively speaking, lots of care available and there are neighbourhoods where access to early learning and care is extremely limited.

**These are complex issues and will require considerable collaborative problem solving between the government and the sector. Home Child Care Association of Ontario is recommending a two pronged approach to address these challenges:**

- 1) Collaborate with Municipalities to immediately implement a base funding mechanism for licensed home child care agencies that recognizes the fixed administrative costs of providing high quality early learning and care.
- 2) Establish a Task Force with representation from the Home Child Care Association of Ontario, CMSMs and DSSABs, the government and the broader early learning and care sector to review and make recommendations with respect to:
  - a. Provider rates
  - b. Regulations
  - c. Planning for and resourcing the early learning and care sector.

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#### **Conclusion:**

The **Home Child Care Association of Ontario** is committed to the families and their children who believe that licensed home child care is the best option for early learning and care, to the independent contractors who provide high quality early learning and care day after day in partnership with licensed home child care agencies and to the staff who support both the providers, the children and their families.

The **Home Child Care Association of Ontario** believes that the government shares this commitment. The release of the *Modernizing Child Care in Ontario: Sharing Conversations. Strengthening Partnerships, Working Together* document in June of 2012 is but one example of this commitment. The recent announcement of changes to the way in which the licensed child care sector will be funded is further evidence.

The challenge as the Modernization process moves forward is to ensure that it is responsive to the diverse needs of different communities across the province while still respecting the need for fundamental equity in how services are planned, managed and delivered.

The **Home Child Care Association of Ontario** looks forward to working with all orders of government to resolve the challenges facing our sector and believe that the time is now right to move forward.

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#### APPENDIX ONE

### Exploring three existing funding models: Ottawa, Toronto and Waterloo

In Ontario today, licensed home child care is currently funded in a number of different ways. Ottawa, Toronto and Waterloo are examples of three different funding models. Waterloo has a municipally delivered program, Ottawa had a base funded administrative budget and the City of Toronto has a per diem with an attached administrative rate. None of these models provides agencies with the stability required to meet the needs of children and their families effectively.

#### Administrative Funding

QUESTION	OTTAWA	TORONTO	WATERLOO	COMMENTS
<b>How is administrative funding calculated?</b>	(until July 2012) Each non-profit licensed agency was assigned a fixed annual amount of administrative funding to cover all operating costs not including provider costs for subsidized spaces. In addition each non-profit licensed agency was assigned a maximum confirmed budget for subsidy. Subsidies are attached to the agency not the family.	An administrative per diem attached to enrollment is calculated based on allowable expenses. An agency may not receive the total administrative per diem for which they are deemed eligible. If enrollment drops then the amount of administrative funding is reduced.	D/O: A percentage of the wage subsidy is used to determine admin. funding.  P of S: Based on the number of home visitors employed.	Note: Waterloo has a municipally delivered home child care program and purchases from three Wee Watch programs.
<b>Depending upon how admin is funded; is there any allowance for enrollment variances?</b>	No allowance or variability based on enrolment variances. The same funding was provided regardless of	Administrative funding goes up and down depending upon enrollment levels.	D/O: The base amount remains the same.  P of S: The average number is reconciled at the	

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QUESTION	OTTAWA	TORONTO	WATERLOO	COMMENTS
	whether enrolment was higher or lower in a month		end of the year.	
<b>What components of service delivery are covered through the administrative funding line?</b>	All operating costs except for provider payments. Admin costs include: program supervisors - home visitor salary and benefits - travel - program expenses - rent - office expenses - central admin such as audit, insurance, accounting costs - a portion of central management - clerical staff to do billing etc	Includes: -program supervisors - home visitor salary and benefits - travel - program expenses - rent - office expenses - central admin such as audit, insurance, accounting costs - a portion of central management - clerical staff to do billing etc	D/O: Administrative lines cover: - Staff salaries and benefits - Travel - Office costs - Allocated central admin P of S: - Per Home Visitor - Owner/Director - Other admin costs are built into the rates	
<b>Do agencies submit annual budgets to have administrative funding levels determined?</b>	Annual budgets were submitted but except for cost of living increases, funding was not adjusted if licensed capacity increased	Annual budgets submitted.	D/O: The directly operated program has an annual economic adjustment set by Council.  P of S: Submit audited statements, rate requests with projected expenditures and revenues as well as an annual wage subsidy update	

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			form.	
<b>Does funding flow in advance or in response to the submission of enrollment figures or a combination of both?</b>	Funding was fixed and flowed monthly	There is a cash advance and then funding is reconciled with monthly enrollment timesheets submitted.	D/O: not applicable  P of S: Advances are quarterly and reconciled annually.	
<b>Are annual audited statements submitted to confirm funding levels reflect actual service provision?</b>	Audited financial statements were required	Agency audited statements are submitted with a special audit schedule for the home child care component of the agency budget.	D/O: not applicable  P of S: Audited statements show funds were used for purposes intended	
<b>What works with the existing funding mechanism?</b>	This base funding model provided funding stability. It recognized that the home child care consultant invests a significant amount of time supporting providers and families even though it does not always result in a placement.  The CMSM knows in advance what the funding levels are going to be.	If the enrolment increases an agency can generate additional revenue.		
<b>What doesn't work?</b>	Did not recognize enrolment increases	City does not pay 100% of actual costs. Administrative funding is enrolment	There is a lack of transparency for franchise operations at the Head Office level.	

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		dependent even though many administrative costs do not fluctuate with enrolment numbers.		
<b>Do you have specific recommendations for improvement?</b>	The fixed administrative funding model did work in Ottawa. Our CMSM has moved to a per diem model, attached to enrolment. The per diem model does not acknowledge that enrolment in licensed home child care is highly variable month by month, nor does it acknowledge the significant amount of uncompensated support that the licensed sector provides to the unlicensed sector.	Base fund core administrative costs that are not sensitive to enrollment.		

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#### Provider Compensation

QUESTION	OTTAWA	TORONTO	WATERLOO
<b>Do providers receive different compensation levels based on the ages of the children for whom they are providing care?</b>	Compensation is based on hours of care provided and the ages of the children	Per diem rates are based both on the hours of care and the ages of the children for whom care is being provided.	No
<b>Do providers receive additional funding for children with special needs? If yes, how much additional funding is provided? Who determines if a child has special needs?</b>	Yes, the licensed agency can allocate a “G” rate as a supplement if appropriate. G rates must be within the agencies maximum confirmed subsidy budget. The child must have an identified special need as identified by Children’s Integration Support Services a family doctor or other support agency	<p>There is a relatively small additional amount that a provider receives. If the child with special needs means that the provider’s overall home capacity is affected i.e. she cannot take another child because this child requires so much additional care, the amount she receives as a special rate DOES NOT make up for the one other regular space she cannot fill.</p> <p>A child’s special needs has to be verified by one of the special needs resource consultants who completes an application for the provider special rate; then the application is approved by a committee of Toronto Children’s Services who administers the special</p>	<p>Providers receive an additional \$6.00 a day per child with special needs. In cases where very special care is needed or the provider must limited the number of other children in her home, we may pay 2x the rate.</p> <p>Agency policy determines if a child has special needs. The Region does not have a resource teacher on staff.</p> <p>The child must be working with at least one special needs agency or have a need that has been identified by a doctor.</p>

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QUESTION	OTTAWA	TORONTO	WATERLOO
		rate funding. Getting a special rate for a child who has an identified diagnosis is certainly the norm and an easier process. Similarly, if a child has a diagnosis but does not really require any additional care or special efforts (e.g. administration of physical therapy etc), the provider may not qualify for the rate.	
<b>Do providers receive increases in per diem rates based on experience?</b>	No	No. Neither training nor experience is a factor in determining per diem rates.	No because there would be pay equity implications.
<b>Do providers receive compensation from wage grants? If yes, is this in addition to approved per diem rates? How the amount of grant for each provider determined?</b>	Yes and the rate is embedded in the provider rate. Some agencies pay the DOG out quarterly while some enhance the daily rate and pay a portion out quarterly based on the provider's earnings in the previous 3 months	<p>Providers receive DOG and PEG in addition to the regular per diem.</p> <p>The DOG rate was established when the grant first was made available and is the same across all agencies. It is a set amount per child, per day (more for full day, less for fewer hours of care). Some agencies may pay it out as part of the regular monthly pay. Others pay it out quarterly.</p> <p>PEG is a proportion of a total pot assigned to the agency based on enrollment at that time. It is divided up</p>	<p>D/O: Providers receive wage improvement.</p> <p>P of S: Providers receive wage grants.</p> <p>The grants are paid over and above per diem rates. The amount of grant is determined by average occupancy.</p>

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		<p>proportionately among the individual providers based on their home's enrollment. If your enrollment is 1% of the agency's total hcc enrollment, you would receive 1% of the PEG pot of funding. Some agencies top up quarterly for most agencies but some have decided to give this out as part of regular payroll. This can create a problem when their predicted enrollment doesn't come to pass and they run out of PEG.</p>	
<p><b>What works with the existing funding mechanism?</b></p>	<p>This base funding model provides stability for the agency to meet their fixed costs regardless of the natural ebb and flow that occurs in enrolment.</p>	<p>In Toronto, the provider gets paid even if the parent does not pay their bill which provides some security for the provider. The higher rate for infants and toddlers has worked as an incentive to care for younger children. This is good for the provider but a risk for the agency.</p>	<p>The reconciliation process.</p>
<p><b>What doesn't work?</b></p>	<p>Some agencies may provide care to families needing non-traditional hours of care i.e. evening care, weekends, overnight. The providers are compensated by using the G rates but the</p>	<p>Rates are not high enough to compete in some neighbourhoods with what informal providers can charge so there is no incentive to work as part of a licensed agency and follow all the rules.</p>	<p>The funding is based on information that is not current. More dynamic reporting to ensure eligibility for wage subsidy funding would be an improvement.</p>

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QUESTION	OTTAWA	TORONTO	WATERLOO
	<p>agency does not receive administrative \$ on the G rates so some agencies are opting out of providing this type of flexible care</p>	<p>The WEG is not a fixed amount so it can go down if there are more children in the agency's care – since it is a proportion of the total. SO you can care for 5 children every day in Q1 and get X; then in Q2 you still care for 5 children but if the overall enrollment increased, your share of the total WEG pot is less.</p> <p>School age rates are VERY low and based on number of hours in care. The rate is so low it likely doesn't cover the cost of food and the hassle of picking them up from school.</p> <p>Like agency funding, some of the provider's costs are not enrollment –sensitive e.g. their rent, cleaning supplies etc.</p>	
<p><b>Additional Comments</b></p>		<p>Fixing provider compensation issues will be difficult in the context of their status as independent contractors since, for example, base funding a part of their costs would decrease the risk that they are assuming.</p>	