Canada-Wide Early Learning and Child Care (CWELCC) System

Operator Webinar: 2025 Cost-Based Funding Approach

September 26, 2024

Indigenous Land Acknowledgement

Agenda

1	Overview of Cost-Based Funding Approach • 2024 Halton Road Map • What is new for 2025 CWELCC Funding? • 2025 Cost-Based Funding Approach • Impacts to Non-CWELCC Operators
2	Accountability Framework and 2025 Priorities
3	Tools, Support and 2024 Next Steps • Operator Readiness
4	Questions and Answers

Halton Region's Roadmap

September

- Today's webinar on key concepts
- Distribute Halton Q&A document and survey

October

- Share Halton's data collection tool for 2025 cost-based funding
- Host Halton operator workshops

November

- Receive complete set of 2025 CWELCC and ELCC guidelines from EDU
- Share Halton updated tools (e.g. workforce compensation calculator, updated Q&A)

December

- Provide 2025 initial funding allocations

January 1, 2025

- Implement new funding approach
- Introduce new fee cap of $22/day

Overview of Cost-Based Funding Approach

What is New for 2025 CWELCC Funding?

On August 15th, 2024, the Ministry of Education released the 2025 Cost-Based Funding Guidelines, to be implemented January 1, 2025.

The Province is transitioning from a revenue replacement model to a cost-based funding approach to better reflect the true cost of providing child care.

Operators are encouraged to review the guidelines, watch the Ministry of Education's recorded webinars and become familiar with the tools available.

What is New for 2025 CWELCC Funding?

2024	2025
Multiple Grants	Flexible single grant system for 0-5 child care system
Allocations provided and reconciled at year end	Initial allocations may be adjusted in-year in 2025

$22 Base Fee Reduction

- March 27, 2022
  - Approved daily base fees were frozen
- December 31, 2022
  - Fees reduced to 52.75%
- January 1, 2025
  - Fees capped at $22 per day
  - If fees are currently below $22 with the 52.75% reduction, fees will stay the same.

**Base fee reduction still subject to regulatory approvals.*

Objectives and Principles of Cost-Based Funding Approach

Objectives:

- Support continued operator participation
- Support wage enhancements
- Improve access to high-quality and affordable child care

Principles for approach:

- Transparent
- Representative
- Simple
- Accountable

2025 Cost-Based Funding at a High-Level

Benchmark Allocation*

(multiplied by the geographic adjustment factor (GAF) of 0.87 for Halton)

+

Top-Ups for Legacy Costs

(where above benchmark allocations)

Top-Ups for Growth

(applies to expansion only)

+

Allocation in lieu of profit/surplus

-

Expected Base Fee Revenue Offset

Program Cost Allocation

***Benchmark:** the standardized cost metric(s) published by the Ministry of Education in Schedule A for the calendar year.

Benchmark Allocation Components- Licensed Child Care Centres

A benchmark allocation represents the typical costs of providing quality child care in a geographic region, based on planned operating spaces and service days. A centre's individual, eligible costs by type do not need to align with each benchmark allocation component.

Benchmark Component for Eligible Centres:	Eligible Costs
Program Staffing	Pay and benefits for program staff (counted towards ratio requirements)
Supervisor	Pay and benefits for supervisors
Accommodations	Accommodations costs including rent, mortgage payments, property taxes, maintenance and minor repairs, and related costs (furniture and equipment)
Operations	All other operating costs including pay and benefits for non-program staff, food, overhead costs, program equipment and supplies, office expenses, utilities, cleaning, insurance and other (advertising, training, transportation, IT).

Benchmark Allocation Components- Licensed Home Child Care Agencies

A benchmark allocation represents the typical costs of providing quality child care in a geographic region, based on planned active homes and service days. An agency's individual, eligible costs by type do not need to align with each benchmark allocation component.

Benchmark Component for Eligible Agencies	Eligible Costs
Provider Compensation	Compensation for home child care providers.
Visitor Compensation	Compensation for home child care visitors.
Agency Operations (Variable) and Agency Operations (Fixed)	Fixed and variable costs for eligible agencies (such as accommodation and operating costs for head office and pay and benefits for head office staff).

Determining Benchmark Allocation

2025 Data Required to Support the Calculation of Program Cost Allocations

- ✓ Planned number of operating spaces by age group;
- ✓ Planned number of active homes;
- ✓ Planned number of active home seats for CWELCC eligible children;
- ✓ Service days by age group or active home;
- ✓ Licensed spaces by age group; and
- ✓ Projected base fee revenues for 2025.

Benchmark Allocation at a Glance

Licensed 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		
Community Setting		
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
Public School Setting		
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	
Community Setting	
Infant	$2,571.84
Toddler	$1,972.39
Preschool	$1,735.54
Kindergarten	$1,598.66
Family age group	$2,958.99
Public School Setting	
Infant	$1,622.91
Toddler	$974.25
Preschool	$797.58
Kindergarten	-
Family age group	$1,241.79

Home Child Care Agencies

	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%	

[CWELCC Cost-Based Funding Estimator]

Legacy Top-Up

- The Province indicates that benchmark allocations should be sufficient for most licensees. Not all licensees will need legacy top-up.
- The legacy top-up is meant to support with legacy cost structures in the transition to cost-based funding in 2025**, if eligible costs exceeds a licensee's benchmark allocation.**
- Legacy top-ups can only be provided to licensees enrolled in CWELCC on or before August 15, 2024 and maintained a CWELCC service agreement with the Region.

Additional Legacy Top-Up Information

Legacy top-ups for centres and licensed home child care agencies will be determined using:

- Eligible costs from 2023 audited financial statements, and 2025 fixed costs for insurance, property tax, and occupancy, where applicable
  - Costs need to be broken down by license (multi-site operators) and eligible costs (serving children 0-5)
- 2023 Controlling Owner’s Compensation for Labour
- 2025 staffing and wage data

Legacy Top-Up Calculation at a Glance

Ministry of Education
CWELCC Legacy Cost Estimator for Legacy Centres - Stage 1

2023 operating reality	Infant	Toddler	Preschool	Kinder	Family	Primary/Junior	Junior	Message
Operating spaces			40	52		60		
Service days			260	260		260		
Typical hours of service per day			10	5		5		
Licensed spaces			40	52		95		

How many days was the eligible centre open in 2023?	261
2023 salary/benefits for one controlling owner employed by the eligible centre	$ 80,000

2025 operating reality	Infant	Toddler	Preschool	Kinder	Family	Primary/Junior	Junior	Message
Operating spaces		15	24	46		90		
Service days		261	261	261				
Typical hours of service per day		11	10	6		5		
Licensed spaces			45	52		95		

We encourage you to walkthrough the EDU Legacy Costs estimator provided by the Ministry on September 11, 2024, to gain of better understanding of the process and financial information required.

For 2023, costs could be split as follows:	Age 0-5	Age 6-12
Program staffing (calculated)	77.78%	22.22%
Supervisor (calculated)	69.23%	30.77%
Accommodations (calculated)	53.66%	46.34%
Operations (calculated)	77.78%	22.22%

For 2025, costs could be split as follows:	Age 0-5	Age 6-12
Program staffing (calculated)	73.74%	26.26%
Supervisor (calculated)	61.39%	38.61%
Accommodations (calculated)	55.03%	44.97%
Operations (calculated)	73.74%	26.26%

Cost escalation factor (fixed)	1.0465

Operating scaling factor	1.2079

Growth Top-Up

- Growth top up will only be applied to licensees who are approved to add spaces beyond current centre licensed capacity, or approved number of homes in Halton.

- No new CWELCC spaces have been confirmed to date for Halton for 2025. Halton's next allocation of community-based spaces will be 347 spaces in 2026.

Allocation in Lieu of Profit/Surplus

- In addition to the program cost allocation, the Region must provide an allocation in lieu of profit/surplus, which recognizes the opportunity cost and the risk of operating a business and allows for reinvesting in child care.

- The allocation is made up of the sum of three components for each licence:

Base Rate Amount 4.25% x program cost allocation + **Premium Rate Amount** 3.5% x benchmark allocation + **Flat Rate** $6,000 = **Total Allocation**

Expected Base Fee Revenue Offset (Parent Fees)

- Expected base fee revenue are fees collected from families for the calendar year.
- For centres, it is the sum of the base fee revenue associated with each operating space for eligible children.
- For home child care agencies, it is the sum of the base fee revenue associated with each active home seat for eligible children.
- Expected registration fees or other mandatory fees must be included.
- Adjustments are made to account for expected vacancies.
  - 10% in 2025
  - 5% for 2026 onwards

Base Fee Revenue Offset Example - Centre

Daily base fee	x	Number of operating spaces	x	Number of service days	=	Total	
$22	x	15	x	261	=	$86,130	+
$21	x	24	x	261	=	$131,544	+
$21	x	78	x	74	=	$121,212	+
$14	x	78	x	187	=	$204,204	+
Estimated base fee revenue						$543,090	+
Adjustment for maximum vacancy rate						0.90	x
Expected Base Fee Revenue Offset						$488,781	=

Base Fee Revenue Offset Example - LHCC

Daily base fee	x	Number of active home seats	x	Number of service days	=	Total	
$22	x	20	x	261	=	$114,840	+
$22	x	10	x	45	=	$9,900	+
$12	x	10	x	261	=	$31,320	+
Estimated base fee revenue						$156,060	+
Adjustment for maximum vacancy rate						0.90	x
Expected Base Fee Revenue Offset						$140,454	=

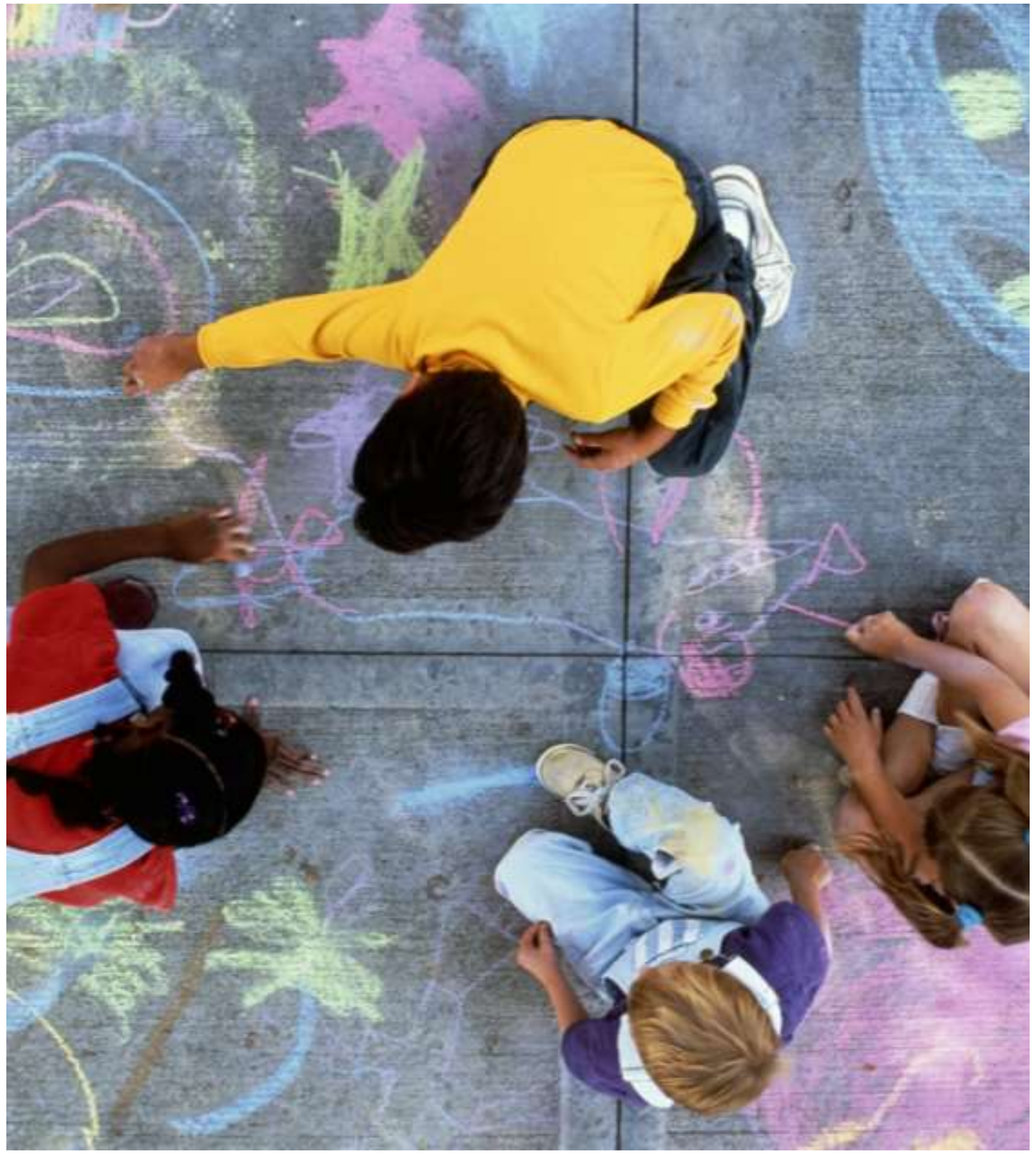
Summary: Cost-Based Funding

Program Cost Allocation • Benchmark Allocation o Program Staffing, Supervisor, Operations Costs, Accommodation Cost o Geographic Adjustment Factor • Legacy Top-Up & Growth Top-Up	$134,366 *
Allocation in Lieu of Profit/Surplus	$16,347
Expected Base Fee Revenue Offset	$61,448
<u>Total Cost-Based Funding Allocation</u>	$89,266

*using illustrative amounts for explanatory purposes

Impacts to Non-CWELCC Operators

- Non-CWELCC operators may continue to run their operations under the existing provincial licensing and regulatory framework.
- As of 2025, non-participating operators serving children aged 0-5 will no longer be eligible for routine funding (WEG, GOG).
- Existing fee subsidy agreements may continue until the benefitting child ages-out of the program or leaves the operator, but no new fee subsidy clients will be placed.



Ongoing Participation in CWELCC

You may provide notice at any time during your participation, but we encourage you to wait until your allocations are confirmed and to discuss any concerns with us before making a final decision. Families should be notified as soon as possible if the decision is made to opt out of the CWELCC system.

Legacy top-ups will support operators in the transition to the cost-based funding model for the 2025 calendar year.

Accountability Framework

Accountability Framework

The Accountability Framework is developed to support the evaluation of costs incurred by the licensee. It is made up of the four components noted below.

- Applying the Principle-Based Definition of Eligible Costs
- Reconciliation Process for Ensuring Cost Eligibility for CWELCC Funding
- Cost Reviews for Legacy Top-Ups Only
- Direct Review and Engagements on Compliance

Applying the Principle-Based Definition of Eligible Costs

- The Ministry has provided guidance on how to evaluate whether costs are eligible and for the purpose of providing child care for eligible children.

Attributable	• Costs are attributable if they are incurred, directly or indirectly, for the provision of child care included in base fees.
Appropriate	• Costs that are necessary or reasonably expected to be incurred by an ordinary prudent person in the operation of a comparable business providing child care for eligible children as well as, provide consideration for access and inclusion, health and safety and quality.
Reasonable	• Reasonable for the quality of the good or service and the amount incurred, given the quality of the good or service.

Example of Eligible Expenses

Attributable	• A new refrigerator is attributable to the provision of child care included in base fees.
Appropriate	• A new refrigerator is appropriate, as a cost reasonably expected to be incurred by an ordinary prudent person in the operator of a child care centre providing food to children.
Reasonable	• A new refrigerator that is reasonable for the quality of the good or service and the amount incurred.

Cost Reviews

- The Ministry is directing the Region to review the costs of licensees with the most **disproportionately high legacy top-up** allocations.
- The goal of these cost reviews is to gradually shift the overall cost of providing child care towards more standardized costs, as represented by benchmark allocations.
- The Region will develop a framework for cost review in 2025, as mandated by the Province.

Reconciliation Process for Ensuring Cost Eligibility for CWELCC Funding

- The Cost-Based Funding Allocation funded will be compared against the licensee's Actual Cost-Based Funding for the calendar year and any overpayments will be recovered.
- This is not a line-by-line comparison, it is for all eligible costs incurred by the eligible centre/agency.
- The allocation in lieu of profit will also be reconciled as the actual amount of in lieu of profit cannot be greater than the allocation in lieu of profit/surplus.
- In-year reconciliations may be performed as well as year end.
- The purpose of these in-year reconciliations would be to identify overpayments for cash management purposes and to avoid the recovery of significant actual overpayments on determination of Actual Cost-Based Funding at year-end.

Direct Engagement to Report on Compliance

Direct Engagement to Report on Compliance:

- In 2025, Halton must select a 5% sample of centres/agencies that received cost-based funding for the calendar year, to undergo a Direct Engagement to Report on Compliance.

Purpose:

- Verify that the reported offsetting base fee revenue and costs on the standardized financial report are eligible and compliant;
- Confirm the eligibility of claimed amounts for the centre/agency; and
- Ensure a reasonable methodology has been used for prorating costs when necessary.

2024 Next Steps, Tools, and Supports

Operator Readiness

- Submit your 2023 audited financial statements
- Begin your 2025 operating plan
- Have data ready for the Region to collect to support 2025 allocations
- Be familiar with eligible costs and financial information for legacy top-ups

Tools to Support

- The Ministry's 2025 CWELCC Funding Approach Guidelines and Q&A
- The Ministry's CWELCC Cost-Based Funding Recorded Webinars
- The Ministry's Benchmark Allocation and Legacy Calculator Tools
- Halton Region Webinars and Workshops
- Halton Region Workbooks, Calculators, and Q&As
- Halton Region Operator Survey

Thank You

- The Region continues to seek clarity from the Province so we can support you through this new process and implementation.
- Thank you for attending today's webinar. We hope the information provided will provide clarity and answer any questions you may have regarding the 2025 CWELCC Cost-Based Funding Approach.
- We appreciate your patience as we work through this transformation together.

Questions

Appendix A: Definitions

Active Home: a home child care premises overseen by an eligible agency, at which child care is currently being provided to at least one eligible child or that plans to accept at least one eligible child during the calendar year.

Active Home Seat: a child care space in an active home, in which an eligible child is enrolled or could be enrolled immediately (without the need for additional, essential steps to accommodate that child) at any given point on a particular service day, and in respect of which the home or agency charges a base fee for enrolled children.

Operating Space: a child care space in an eligible centre, in which an eligible child is enrolled or could be enrolled immediately (without the need for additional, essential steps to accommodate that child, such as hiring additional staff to meet regulatory requirements) at any given point on a particular service day, and in respect of which the centre charges a base fee for enrolled children. Alternate capacity is considered for the purpose of counting operating spaces.

Service Day: a 24-hour period that begins in the calendar year, starting at the time the eligible centre or active home normally first begins to accept children into care or the end of the previous 24-hour period, during which the operator is enrolled in CWELCC and charges a base fee per the parent handbook, even if the centre or home is not open. For clarity, the number of service days in a calendar year cannot exceed the number of calendar days in the calendar year.

Appendix B: Eligible Expenses Examples

Description	Analysis	Eligible	Ineligible
Accrued interest on shareholder equity	As accrued interest on shareholder equity is not a cost attributable to the provision of child care.		☑
Audit services	Eligible, as audited financial statements are contractual stipulations of the CWELCC service agreement.	☑	
Bad debt expense	Eligible, subject to the rule 3 above, and if the bad debt expense refers to the portion of accounts receivable that is deemed uncollectible and if it does not exceed the licensee's accounts receivable at any given time.	☑	
Depreciation or amortization	Eligible, if related to an asset that is an eligible cost and subject to rule 3, above.	☑	
Income taxes	Ineligible. While income taxes are a legitimate obligation for licensees, they are not costs attributable to the provision of child care.		☑
Insurance premiums	Eligible, if the insurance is used to mitigate the licensee's potential financial risks and safeguard the well-being of children, staff and the overall child care facility such as from accidents, injuries, property damage and liability claims, including as required for licensing.	☑	
	Ineligible, if the object of the insurance is not attributable to the provision of child care.		☑
Fixing a broken window	Eligible, if it is a minor repair of a window of a facility in which child care included in the base fee is delivered.	☑	
	Ineligible, if the cost refers to the unnecessary replacement of all the windows in the facility.		☑
Franchise fees	Eligible, if incurred for the purpose of operating an eligible child care centre/agency and necessary to that operation, or if an ordinary prudent person in the operation of a comparable child care business would incur such a fee.	☑	
Kitchen equipment	Eligible, if required for the provision of child care, such as a fridge, microwave, kettle, or oven, whereas a coffee machine or wine fridge would not be eligible.	☑	
3rd party loans – interest	Eligible, when loans are directly related to non-recurring eligible costs if there is a contractual obligation that establishes interest and repayment requirements. Eligible financing costs must not exceed those stemming from interest rates in alignment with the Canada Small Business Financing Program rates, as described in the Specific Rules, above.	☑	
3rd party mortgages - principal and interest	Eligible, when the mortgage is on facilities actively used to deliver child care included in the base fee.	☑	

Eligible Expenses Examples Continued

Description	Analysis	Eligible	Ineligible
	Ineligible, if the mortgage is on facilities not actively used to deliver child care in the base fee (for example, the facility is vacant), as it would not be necessary or economical or needed for health and safety. While CMSMs/DSSAB s must mitigate risks of funding vacant facilities, they may use discretion and allow short-term vacancies (for example, during start-up or regular closure periods).		☑
Loans where the lender is a shareholder (including mortgages) - interest	Eligible, when loans are directly related to non-recurring eligible costs and a contractual obligation that establishes interest and repayment requirements exists. Due to the non-arms-length relationship with shareholders, licensees would have to demonstrate the interest rate is comparable to market rates and not artificially higher.	☑	

Please note this is not meant to be an exhaustive list, but examples made to support your understanding of eligible and ineligible expenses.