



# CWELCC Principle-Based Cost Eligibility Policy and Procedure

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## Background and Purpose

To provide all Child Care Operators and applicants to the Canada-Wide Early Learning and Child Care (CWELCC) System with information as to the eligibility of costs for cost-based funding and the procedure for the assessment of eligible costs by Wellington when evaluating Actual Cost-Based Funding on reconciliation and conducting cost reviews.

## Policy Statement

Child Care Operators and applicants have the right to understand whether an expense is eligible for cost-based funding under the CWELCC System and understand that using CWELCC funding for ineligible costs may result in year-end recoveries. It is the responsibility of Child Care Operators to follow the guidance within this policy and procedure, which is intended to minimize the risk of unexpected cost recoveries.

## Principle-Based Definition of Eligible Costs

The principle-based definition of eligible costs is designed to balance the objective of supporting Child Care Operator participation in the CWELCC System by providing appropriate funding, representative of the true costs of providing child care, with the need to build in cost control structures and safeguards to ensure accountability over, and equitable distribution of, public funds. The intent is to provide a clear and consistent approach to evaluating eligible costs, while imposing minimal administrative burden for both Wellington and Child Care Operators and supporting high-quality learning environments for the benefit of eligible children in the Child Care Operator's care. Costs must meet the following criteria of Attributable, Appropriate, and Reasonable.

"Attributable" and "appropriate" determine whether a Child Care Operator's cost is, by nature, eligible for CWELCC funding, while the "reasonableness" of a cost determines whether the quality and amount (that is, in full or partial amount) of that cost is eligible for coverage.

### Attributable

Costs are *attributable* if they are incurred, directly or indirectly, for the provision of child care included in base fees.

Base fees are any fees charged in respect of a child for child care, including anything a Child Care Operator is required to provide under [Ontario Regulation 137/15](#) or anything a Child Care Operator requires the parent to purchase.

## Appropriate

Costs are *appropriate* in nature and character for the provision of child care for eligible children if they:

- a) Represent types of costs that are necessary or would reasonably be expected to be incurred by an ordinary prudent person in the operation of a comparable business providing child care for eligible children; and,
- b) Provide due regard for access and inclusion, health and safety and quality.

For clarity, administration costs, costs incurred for health and safety, and costs incurred for cultural or religious purposes should be considered among appropriate costs.

## Reasonable

A Child Care Operator's costs, which are attributable to and appropriate for the provision of child care included in base fees for eligible children, are *reasonable* if, having regard to all relevant circumstances, the:

- a) Quality of the good or service; and,
- b) Amount incurred, given the quality of the good or service,

do not exceed what would be incurred by an ordinary prudent person in the operation of a comparable business providing child care to eligible children.

For clarity, a "comparable business" for the purpose of evaluating eligible costs means a business providing child care meeting the requirements of the [Child Care and Early Years Act, 2014](#), and may mean a business:

- a) Offering a similar child care programme to eligible children in a similar setting (child care centre or home child care overseen by a home child care agency); and,
- b) In similar circumstances (for example, located in the same or similar region, providing child care for children of similar ages, or with similar religious or cultural considerations)

For example, an eligible centre's purchase of a new refrigerator would be an eligible cost if it meets all three criteria described above. In general, the cost of a new refrigerator might be:

- Attributable to the provision of child care included in base fees (that is, purchased for the purpose of providing safe food to the children);
- Appropriate, as a cost reasonably expected to be incurred by an ordinary prudent person in the operation of a comparable child care centre providing food to children, and necessary to providing safe and healthy food, as part of the base fee; and
- Reasonable in quality and amount incurred, if the quality of the refrigerator does not exceed what is reasonably fit-for-purpose for the centre's needs, and if the Child Care Operator obtained a competitive price for a refrigerator of that quality.

The particular refrigerator that meets the three criteria may differ, depending on the centre's circumstances. For example, consideration may be given to:

- The number of children served at the eligible centre
  - For example, the purchase of a second refrigerator may be appropriate where necessary to store enough food for the number of children cared for at the centre;
- The complexity of dietary needs at the eligible centre, including for religious purposes
  - For example, a refrigerator with particular features may be reasonable in quality based on dietary needs or religious considerations, and reasonable in amount incurred if the eligible centre paid a competitive price for a refrigerator with those features;
- The urgency of need and timely availability of options to meet that urgency
  - For example, a high delivery charge may be reasonable to obtain a refrigerator in a timely manner to ensure continued operations, if no other appropriate and reasonable options are available.

*Having considered the above*, the cost of a new refrigerator might be ineligible (partly or fully) if, for example, the refrigerator:

- Is located, without reasonable explanation, far away from the facility in which the child care included in the base fee is provided (in which case it may fail the attributable test);
- Was purchased second-hand and, due to an irreparable condition, cannot store food at a safe temperature (in which case it would fail the appropriate test);
- Is “top-of-the-line”, with features not required to deliver child care at the centre (in which case it may fail the reasonable test);
- It is meant to replace a reasonably working refrigerator already supporting the delivery of child care included in the base fee, or supplement that refrigerator when a second refrigerator is not needed (in which case it may fail either the appropriate or reasonable tests); or,
- Was purchased for a price higher than others clearly available in a timely manner (in which case it may fail the reasonable test).

## Specific Ministry of Education Rules for Assessing Eligible Costs

Notwithstanding the application of the principle-based definition of “eligible costs”, described above, the following specific rules apply, which support the principle of value-for-money:

### **1) Controlling Owner’s Compensation for Labour**

For the purpose of calculating an eligible centre’s/agency’s legacy top-up, controlling owner’s compensation for labour is accounted for as described in step 1e, under the calculation of legacy costs. In general, salaries, wages and benefits paid to owners for their labour are eligible expenses, like compensation for any other employee, and are not capped at a specific amount.

### **2) Costs deemed to be in lieu of profits**

Costs deemed to be in lieu of profits (such as in-kind benefits or perks directly or indirectly for the benefit of a controlling owner) are excluded from eligible costs. For example, year-end performance bonuses for the controlling owner.

### **3) Costs funded by another public source or reimbursed by another source (such as by insurance claims)**

Costs funded by another public source are excluded from eligible costs for the purposes of calculating CWELCC cost-based funding.

For example, capital set-up costs incurred for the purpose of creating new spaces are excluded from CWELCC cost-based funding if these costs are covered by other government funding such as Start-up Grant funding.

As an additional example, amortization expenses would be eligible only if the related asset was purchased before the announcement date and not claimed as an eligible expense under previous/other government funding, including CWELCC funding. Similarly, costs reimbursed by insurance claims are not eligible costs.

For greater certainty, the availability of other revenue sources beyond base fees (such as donations or non-base fees), does not impact cost eligibility or otherwise offset cost-based funding.

### **4) Capital Renewal for Major Repairs of Sites of Existing Spaces**

Capital renewal funding for major repair costs is not included in benchmarks. For greater certainty, nothing in this section affects a Child Care Operator’s obligations under any legislation, such as O. Reg. 137/15, the *Building Code Act, 1992*, the *Fire Protection and Prevention Act, 1997*, and other health and safety standards, where applicable.

Some capital renewal costs (for example, in publicly funded school settings) could be covered by school boards or other government funding.

**5) Costs for ineligible children**

Eligible costs attributable to providing child care to both eligible and ineligible children (for example, ages 6 to 12) are split using a reasonable methodology.

**6) Financing Costs exceeding Canada Small Business Financing Programme Rates**

Eligible financing costs must not exceed those stemming from interest rates in alignment with the Canada Small Business Financing Programme rates (for example, prime plus 3% for term loans and prime plus 5% for lines of credit). Loans from the federal or Ontario governments are exempt from this restriction.

**7) Penalties, fines, forfeitures, or liquidated damages**

Any penalties, fines, forfeitures, or liquidated damages incurred by the Child Care Operator are excluded.

**8) Gains or losses resulting from the sale of tangible capital assets purchased with cost-based funding**

Any gains or losses resulting from the sale of tangible capital assets purchased with cost-based funding must reduce (in the case of a gain) or increase (in the case of a loss) eligible costs for the calendar year in which the sale takes place.

### Examples: Assessing Eligible Costs

The following examples speak to the attributable and appropriate tests in determining whether costs are eligible, by their nature. The reasonableness test, which would determine whether the amount(s) incurred are eligible (fully or partially), would come next.

<b>Description</b>	<b>Analysis</b>
<b>Accrued interest on shareholder equity</b>	Ineligible, as accrued interest on shareholder equity is not a cost attributable to the provision of child care.
<b>Audit services</b>	Eligible, as audited financial statements are contractual stipulations of the CWELCC service agreement.
<b>Bad debt expense</b>	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 Child Care Operator’s accounts receivable at any given time.
<b>Depreciation or amortization</b>	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 Child Care Operators, they are not costs attributable to the provision of child care.

**Insurance premiums**

Eligible, if the insurance is used to mitigate the Child Care Operator’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 Programme 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.

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 the County 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, Child Care Operators would have to demonstrate the interest rate is comparable to market rates and not artificially higher.

**Process for Ensuring Cost Eligibility for CWELCC Funding**

- 1) Child Care Operators are required to review this document to be aware of eligibility criteria and understand that using CWELCC funding for ineligible costs may result in year-end recoveries. To minimize this risk, Child Care Operators should not incur ineligible costs.

If in doubt, before incurring the cost, Child Care Operators may seek guidance from Wellington related to cost eligibility.

For clarity, such guidance or communication is intended to minimize the risk of unexpected cost-recoveries and potential disputes and not provide a final determination of cost eligibility. A final determination cannot be made until reconciliation.

- 2) Child Care Operators are required to submit financial information following the middle and end of the calendar year. They are also required to submit an annual attestation, signed by an officer with appropriate signing authority (that is, director or equivalent), confirming that CWELCC funding has been used in accordance with its intended purpose, as outlined within the parameters provided by Wellington.

- 3) Child Care Operators will submit standardized financial reports for each eligible centre/agency providing the breakdown of eligible costs, following the categorization of components of benchmark allocations (for example, programme staffing, accommodations).
- 4) Wellington is required to select a subset of eligible centres/agencies to undergo further scrutiny of eligible costs as identified on their standardized financial reports for the previous calendar year through a Direct Engagement to Report on Compliance, giving third-party assurance that all costs are eligible.

A 5% sample of eligible centres/agencies that received cost-based funding for the calendar year will be selected to undergo the Direct Engagement to Report on Compliance.

- Child Care Operators should keep relevant information (such as receipts, quotes, details of circumstances, appropriate to the nature and amount of the cost).
  - The Direct Engagement to Report on Compliance should confirm that amounts claimed are attributable to goods or services listed, and that a reasonable methodology has been employed to pro-rate costs, where necessary.
- 5) In addition to those selected for a Direct Engagement to Report on Compliance, Wellington may review standardized financial reports or other available information and identify any risk of cost ineligibility.
  - 6) Where a risk of cost ineligibility is identified, Wellington will follow-up with the Child Care Operator for more information relevant to their assessment of eligible costs (such as copies of receipts, quotes, details of circumstances).
  - 7) Wellington will review information provided by the Child Care Operator to assess the eligibility of costs claimed. In conducting that review, Wellington could:
    - a) consult with other Service System Managers, as appropriate, to support consistency of administration;
    - b) consider costs incurred by comparable eligible centres/agencies.

- 8) Where Wellington identifies an ineligible cost, Wellington is required to:
  - a) Document the rationale for identifying that cost as ineligible;
  - b) Adjust the eligible centre's/agency's eligible costs used in determining their Actual Cost-Based Funding to either:
    - i) Where the cost is either unattributable or inappropriate, remove the ineligible cost from the Actual Programme Costs; or,
    - ii) Where the cost is attributable and appropriate, but unreasonable, adjust the total cost, included in the Actual Programme Costs, down to a reasonable amount (that is, remove the ineligible portion of the total cost).
- 9) In case of disagreement, Wellington and the Child Care Operator must follow the dispute resolution process established by Wellington and posted on Wellington's website.

## Procurement of Goods and Services

Child Care Operators are expected to follow best practices for the procurement of goods and services to ensure that the process is open, fair, and transparent. The following principles should be applied:

### Value for money

Buyers should consider factors such as the requirements of the business, alternatives, timing, supply strategy and total life cycle costs of the good or service when evaluating vendors' submissions.

### Vendor access, transparency and fairness

Organizations should provide all qualified vendors with fair access to the purchase of goods and services. Buyers should avoid conflict of interest, both real and perceived, and choose the successful vendor in a fair and non-discriminatory process.

### Quality service delivery

Procurement activities should result in the delivery of the required product or service at the right time and place to organizations.

## Purchasing Requirements

The purchase of goods or services must follow the requirements below, in addition to the requirements for non-arms length purchases:

Purchase Amount	Requirement
<b>\$0 - \$10,000</b>	No requirement to obtain quote and a direct purchase may be made.
<b>More than \$10,000</b>	A minimum of three quotes should be obtained wherever possible. These must be retained by the Child Care Operator for 7 years and produced upon request by the County.
<b>More than \$25,000</b>	A minimum of three quotes must be obtained and the Child Care Operator must seek approval from the County prior to making the purchase by submitting a CWELCC Cost-Based Purchase Request Form. Forms must be sent to <a href="mailto:CEYD@wellington.ca">CEYD@wellington.ca</a> .

## Non-Arms Length Purchases

To ensure accountability as Service System Manager, the County shall ensure that all non-arms-length transactions are conducted in the following manner.

### Definition

For purposes of this policy the definition of a “non-arms-length” transaction are any of the below circumstances:

- i) a transaction between related persons, such as family members or personal friends;
- ii) a transaction between parties with an existing personal or business relationship.
- iii) a transaction between related businesses, such as those made between a parent company and a subsidiary;
- iv) any transaction where one party has undue influence over the other.

### Procedure

- A. Child Care Operators who choose to conduct a non-arms-length transaction shall notify the County, by email to [CEYD@wellington.ca](mailto:CEYD@wellington.ca), of their intent to do so prior to making the transaction.
- B. Child Care Operators shall declare, in writing the Conflict of Interest and the nature of the relationship.

- C. The County shall undertake a review of the details of the transaction and take the following actions:
- i) Conduct cursory market data research on the commodity/service to obtain a real-time snapshot of how the market values similar items.
  - ii) Review the Conflict-of-Interest disclosure to understand the nature and extent of such conflicts and assess.
  - iii) The County may consider arranging for substitute review or enhanced measures to ensure that the appropriate due diligence is conducted, and the appropriate level of disclosure and other requirements are satisfied.
- D. Upon review of the steps above, the County shall make the determination to approve or deny the transaction and notify the Child Care Operator in writing.
- E. Any non-arms length transactions that do not follow this process, or have not been approved by the County, may not be eligible for CWELCC Cost-Based Funding and are subject to reconciliation.

### Example Scenarios

- A Child Care Operator owns the building where the child care centre is located under a separate corporation name and charges rent to themselves.
- The spouse of a Child Care Operator runs a food service business and the Child Care Operator contracts with this business to cater to the child care centre.