Wellington Guidelines Children's Early Years Division

CWELCC Cost-Based Funding Formula

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*This document is intended for use by the recipient Agency/Organization holding an Agreement with the County of Wellington for funding to administer licensed child care and/or early years services.

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CWELCC Cost-Based Guideline

Procedure Statement

The purpose of this Guideline is to outline the Cost-Based Funding Formula developed by the Ministry of Education and how it will be implemented in the County of Wellington.

Introduction

Starting in 2025, the County of Wellington will be implementing a new cost-based approach to Canada-Wide Early Learning and Child Care (CWELCC) funding, as per Ministry of Education directions.

This Guideline is applicable to the calculation of cost-based funding for eligible centres/agencies under the Canada-Wide Early Learning and Child Care (CWELCC) Agreement for 2025 and subsequent calendar years.

The cost-based funding approach described in this document replaces the previous, “revenue replacement” approach, which—until December 31, 2024—provided funding based on the revenue “lost” due to mandatory caps and reductions of parent fees pursuant to O. Reg 137/15.

Starting in 2025, operators will be funded based on eligible costs incurred in the calendar year in eligible centres/agencies, up to a maximum amount of funding determined by the formula described in this document and the Ministry of Education guideline.

Key Concepts:

The cost-based funding approach provides funding based on the typical (representative) costs of providing high-quality child care to eligible children in Ontario. Cost-based funding is calculated per eligible centre/agency and is structured around the following basic concepts:

1. **Programme costs:** Funding is provided to support eligible costs.
2. **Amount in lieu of profit/surplus:** In addition to covering eligible costs, the cost-based funding approach builds in an amount to recognize opportunity costs associated with CWELCC enrollment and the risk of running a business, or for operators to reinvest in child care. The calculation of an amount in lieu of profit/surplus also reflects the need for safeguards around public funding and profit margins, as required under the Canada-Ontario CWELCC agreement.
3. **Base fee revenue:** Fees continue to be collected (for example, from families) to provide child care as reflected in base fees, with restrictions on the amounts that

can be charged as set out in O. Reg 137/15 under the Child Care and Early Years Act, 2014.

4. **Cost-based funding:** The sum of funding for programme costs and the associated amount in lieu of profit/surplus, offset by base fee revenue.

5. **Funding allocations vs actual funding:** Under the cost-based funding approach, the amount of funding an operator can receive in respect of an eligible centre/agency ("Actual Cost-Based Funding") crystalizes upon the assessment, at the time of reconciliation, of eligible costs incurred for the eligible centre/agency during the calendar year.

To ensure accountability over public funds, Cost-Based Funding Allocations set the maximum amounts that could be claimed in eligible costs in respect of eligible centres/agencies upon reconciliation. In other words, this cost-based approach is not a pure "cost reimbursement" model.

Cost-Based Funding Allocation Process:

The process for cost-based funding is outlined in the table below.

Before the Calendar Year	During the Calendar Year	After the Calendar Year
Eligible centres/agencies submit the coming year's operating plan, including a copy of the Parent Handbook SSM calculates Cost-Based Funding Allocations SSM updates Service Agreements, as needed SSM schedules regular (advance) payments to operators SSM selects eligible centres/ agencies for cost reviews	SSMs pay operators as per schedule Eligible centres/agencies submit reports, as requested, to the SSM Eligible centres/agencies request in-year funding change requests (based on changes to operating plans or emergency funding) SSM performs cost reviews	Eligible centres/agencies submit annual financial reports that are reviewed by the SSM for cost eligibility SSM selects a sample of eligible centres/agencies for Direct Engagements to Report on Compliance SSM calculates and recovers overpayments

Details about components mentioned in the process are outlined further in this document.

Ongoing Communication:

To support the principles and smooth implementation of cost-based funding, the County of Wellington will utilize an approach of open, early, and appropriate communication. This includes:

- Direct email
- Operator meetings
- Sharing of information on the County of Wellington website

Definitions (Terminology)

Term/Acronym used:

- **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.
- **Benchmark(s):** the standardized cost metric(s) published by the Ontario Ministry of Education in Schedule A of the Ministry of Education guideline for the calendar year.
- **Calendar year:** the period from January 1 to December 31. For clarity, if a particular year is specified in this guideline (such as “2025"), it refers to the respective calendar year.
- **CCEY:** Child Care and Early Years
- **Costs:** for the purpose of assessing eligible costs, means:
  (a) recurring costs, incurred for an eligible centre’s/agency’s daily operations such as wages, food, accommodation, or eligible amortization expenses; and,
  (b) non-recurring (upfront or amortized) costs incurred by the eligible centre/agency,
    i. on minor repairs to capital infrastructure; or,
    ii. to replace, enhance, or purchase minor capital assets used for regular operation, such as kitchen or HVAC equipment.
- **CWELCC:** Canada-Wide Early Learning and Child Care

- **Eligible centre/agency:** a child care centre/home child care agency that is:
  - (a) enrolled in CWELCC; and,
  - (b) eligible for funding under CWELCC
- **Eligible costs:** costs incurred in respect of an eligible centre/agency in the calendar year for the purpose of providing licensed child care for eligible children, and which are:
  - (a) attributable to the provision of child care included in the base fee for eligible children;
  - (b) appropriate for the provision of child care for eligible children; and,
  - (c) reasonable in quality and amount incurred, having regard to all the relevant circumstances.

  <u>For greater certainty, the following are not eligible costs:</u>

  - 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);
  - costs for capital renewal for major repairs of sites of existing spaces;
  - financing costs exceeding Canada Small Business Financing Programme Rates;
  - costs funded by another public source or reimbursed by another source (such as by insurance claims); and,
  - any penalties, fines, forfeitures, or liquidated damages.
- **Existing centre/agency:** means an eligible centre/agency that is not a new centre/agency.
- **Legacy centre/agency:** means an eligible centre/agency:
  - (a) enrolled in CWELCC on or before August 14, 2024, and that has maintained a continuous CWELCC service agreement with the CMSM/DSSAB since that date; or,
  - (b) that submitted an application for enrolment in CWELCC on or before August 14, 2024, which application was not withdrawn at any time following August 14, 2024, and, as a result of that application, was enrolled in CWELCC and has maintained a continuous CWELCC service agreement with the CMSM/DSSAB since the date of enrollment.
- **Licensed space:** a child care space in an eligible centre, in which, pursuant to the centre's license, the centre is authorized to enroll a child (not required to be an "operating space") and charges a base fee for enrolled children. Alternate capacity is not considered for the purpose of counting licensed spaces.

- **New centre/agency:** an eligible centre/agency in the first calendar year enrolled in CWELCC (cannot be a legacy centre/agency).
- **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. Eligible centres can only enroll children if they meet the requirements of O.Reg 137/15, including minimum programme staff-to-child ratios per room.
- **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 in respect of the eligible centre/agency and charges a base fee per the parent handbook, even if the centre or home is not open (for example, on a statutory holiday). For clarity, the number of service days in a calendar year cannot exceed the number of calendar days in the calendar year.
- **SSM:** Service System Manager of Licensed Child Care and Early Years
- **Vacancy rate:** the number of operating spaces or active home seats, in which no child is enrolled, divided by the total number of operating spaces or active home seats in the eligible centre/agency.

Guidelines

1.0 OBJECTIVES AND OVERARCHING PRINCIPLES

The CWELCC cost-based funding approach (sometimes referred to as the “funding formula”) is guided by the following objectives and principles.

1.1 Objectives:

- **Support operators’ participation** in the CWELCC programme by providing appropriate funding to enable parent fee reductions prescribed in O. Reg 137/15 under the *Child Care and Early Years Act, 2014*.
- **Support wage enhancements** under Ontario’s Child Care Workforce Strategy for eligible centres/agencies.
- **Improve access** to high-quality and affordable child care by supporting growth spaces.

1.2 Principles:

- **Transparent:** Clear and consistent approach, both locally and across CMSMs/DSSABs so that operators know what to expect from CMSMs/DSSABs.
- **Representative:** Funding is responsive to how child care is delivered in Ontario and based on the true costs of providing child care to eligible children.
- **Simple:** Easy to understand with minimal administrative burden.
- **Accountable:** Cost control structures and safeguards ensure accountability for and equitable distribution of public funding.

The cost-based funding approach is designed to balance these principles. For example, benchmarks were developed to balance simplicity with representativeness by using statistical techniques to turn standard and clear data metrics – such as spaces/active homes – into cost drivers, representative of costs typically incurred for the delivery of child care in Ontario.

Building benchmarks into cost-based funding limits the data required to determine funding without oversimplifying into a “one size fits all” approach.

2.0 OVERVIEW OF THE COST-BASED FUNDING ALLOCATION

An eligible centre's/agency's CWELCC Cost-Based Funding Allocation is an amount of funding provided to operators to support the costs of providing child care throughout the year. The Cost-Based Funding Allocation is calculated as:

Programme Cost Allocation
PLUS
Allocation In Lieu of Profit/Surplus
MINUS
Expected Base Fee Revenue Offset
EQUALS
Cost-Based Funding Allocation

Cost-based funding is calculated for each eligible centre/agency (that is, at the license level), even if managed by the same operator. Multi-site operators will receive Cost-Based Funding Allocations, and need to track eligible costs, at the license level. The County of Wellington will then reconcile at year end for each eligible centre/agency.

The Cost-Based Funding Allocation is calculated annually, prior to the beginning of a year. This allocation is for a calendar year and is based on the information submitted in the eligible centre's/agency's operating plan for the coming year.

2.1 Programme Cost Allocation:

The Programme Cost Allocation calculation involves two main components which are added together:

1. Benchmark Allocation

The purpose of the benchmark allocation is to generate notional, cost-based funding amounts that represent typical costs incurred for eligible centres/agencies, adjusted for regional differences, to help ensure that similar eligible centres/agencies receive similar funding. A centre's/agency's individual, eligible costs by type do not need to align with each benchmark allocation component (for example, some centres/agencies may have relatively high accommodation cost but low operations costs, or vice versa).

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2. Top-Up Allocation

The top-up allocation may include one or more of a:

1. ***Legacy top-up*** for legacy centres/agencies in 2025 to support their legacy cost structures in the transition to cost-based funding, if such structures mean that eligible costs will exceed their individual benchmark allocations for the calendar year. This is to avoid legacy centres/agencies having to significantly change their operating models due to the implementation of cost-based funding. This top-up allocation only applies to 2025 and becomes part of the rolling top-up after 2025.
2. ***Growth top-up*** for new centres/agencies in the calendar year, or existing centres/agencies that expand with approved, new licensed spaces/active homes in the calendar year. This is to recognize that typical costs may vary within economic regions and to encourage growth.
3. ***Rolling top-up*** for eligible centres/agencies in calendar years after 2025 who received a top-up in the previous calendar year (either legacy top-up, growth top-up, rolling top-up, or some combination). This is to ensure that cost structures are covered from one calendar year to the next. This top-up allocation only applies to calendar years after 2025.

New centres/agencies should develop their operating plans or budgets to fit within their Programme Cost Allocation for the applicable calendar year.

2.2 Allocation In Lieu of Profit/Surplus:

Allocation in Lieu of Profit/Surplus, recognizes the opportunity cost and the risk of operating a business and allows for reinvesting in child care. This allocation is made up of the sum of three components for each license.

2.3 Expected Base Fee Revenue Offset:

An eligible centre's/agency's Programme Cost Allocation plus Allocation in Lieu of Profit/Surplus is offset by the Expected Base Fee Revenue for the calendar year to be earned from families, or others on behalf of families (this means, including fee subsidies).

A description of how each of these components are calculated is provided in a later section of this document.

3.0 ANNUAL OPERATING PLAN

Licensed child care operators must submit information to the County of Wellington each year to support the calculation of the Cost-Based Funding Allocation for the coming year (this is the "annual operating plan"). This is an annual process and operators are to submit plans for the upcoming calendar year (January to December) via an online CWELCC Cost-Based Allocation Tool.

Information that will be requested each year may include:

- Planned number of operating spaces by age group;
- Planned number of active homes (Licensed Home Child Care);
- Planned number of active home seats for eligible children (Licensed Home Child Care);
- Planned number of service days by age group or active homes;
- The typical number of hours of service provided by the eligible centre/agency for each eligible age group; and
- A copy of the eligible centre's/agency's parent handbook or an indication of where the handbook is publicly available.

Budgeting and Planning:

The annual operating plan is for the upcoming calendar year. The information required to calculate the Cost-Based Funding Allocation are plans for the upcoming calendar year, not actuals.

Budgeting and planning are best practices that help organizations mitigate financial and operational risks. During a budgeting or planning process, eligible centres/agencies must make reasonable assumptions – within the existing constraints of their operation such as licensed capacity and availability of staff – of their licence-specific characteristics in a future state. These plans and assumptions would be similar to the information that would be used to create the eligible centre's/agency's operating budgets.

Actual costs will be reconciled on a calendar year basis. Accurate planning assumptions will help avoid significant recoveries at year end.

4.0 CALCULATING THE PROGRAMME COST ALLOCATION

Programme Cost Allocations are calculated by eligible centre/agency. As noted above, the Programme Cost Allocation is comprised of a Benchmark Allocation (adjusted for geographic differences) and a Top-Up Allocation.

Benchmark Allocation:

Benchmarks are designed to represent typical costs incurred by licensed child care centres and home child care agencies in Ontario in each of the components shown in the table below.

Benchmark Component	Eligible Costs Represented
ELIGIBLE CENTRES	
Programme Staffing	Pay and benefits for programme staff in eligible centres (that is, counting towards ratio requirements in O. Reg 137/15 under the *Child Care and Early Years Act, 2014*)
Supervisor	Pay and benefits of supervisors working in eligible centres
Accommodations	Accommodations costs for eligible centres, including rent, mortgage payments, property taxes, maintenance and minor repairs, and other related costs such as furniture and equipment
Operations	All other operating costs of eligible centres, including pay & benefits of non-programme staff (such as cooks), food, overhead costs (such as centralized staff, licensing or professional fees), programme equipment and supplies, office expenses, utilities, cleaning, insurance, and other (such as training, advertising, transportation, IT equipment)
ELIGIBLE AGENCIES	
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 the head office, and pay and benefits for head office staff)

To calculate the relevant components of an eligible centre's/agency's unadjusted benchmark allocation, the County of Wellington will apply benchmarks for the calendar year, as set out in Schedule A of the Ministry of Education guideline, across license-specific characteristics, such as:

- Operating space-days/home-days (representing variable costs)
- Licensed spaces/space-days (representing fixed costs)
- Applicable age group for eligible centres (infant, toddler, preschool, kindergarten, family age group)
- License type (centre-based or home child care)
- License setting (community or publicly funded school)

Benchmarks for the calendar year are based on statistical analysis of data collected from the sector (and other sources) and account for cost escalation, including due to policy changes (such as the Child Care Workforce Strategy). The Ministry of Education reviews and publishes benchmarked amounts at least annually in advance of the relevant calendar year.

Geographic Adjustment Factor

The sum of all amounts noted in the above table establish the unadjusted benchmark allocation for the eligible centre/agency. Due to cost variations across the province, the unadjusted benchmark allocation is then multiplied by a geographic adjustment factor (see Schedule B in the Ministry of Education guideline) to finalize a benchmark allocation for the eligible centre/agency.

Planning for Operating Spaces in the Upcoming Calendar Year

The information submitted for your centre to calculate the benchmark allocation is based on the planned number of operating spaces in the upcoming calendar year. The Ministry of Education defines an operating space as:

> "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. Eligible centres can only enroll children if they meet the requirements of O.Reg 137/15, including minimum programme staff-to-child ratios per room."

In planning for the upcoming calendar year use your centre's average current year's operating capacity as a starting point for determining the number of operating spaces in the coming year. Also consider available staffing, waiting list, your centre's growth plan, etc.

If you want to discuss the number of operating spaces for the coming year, contact the Funding Analyst at the County of Wellington.

Any changes in operating spaces made during the calendar year (i.e. any changes in mixed age grouping or alternate capacities, a higher operating capacity, etc.) will be considered during in-year adjustments or cost recovery.

At the time of year end reconciliation, the County of Wellington will be looking at the actual number of operating spaces and recovering costs, if necessary, based on this.

Attributing Costs Amongst Sites (Multi-Site/Multi-Service Operators)

Cost-based funding is calculated for each eligible centre/agency (that is, at the license level), even if managed by the same operator. Multi-site operators will receive Cost-Based Funding Allocations, and need to track eligible costs, at the license level. The County of Wellington will then reconcile at year end for each eligible centre/agency.

If your organization is a multi-site and/or multi-service organization the information required to calculate the benchmark allocation and top-up allocation needs to be submitted by:

- SSM jurisdiction (County of Wellington sites only)
- Site
- CWELCC eligible child care portion only
- CWELCC eligible children only
- Calendar year

It is a requirement that your organization prepares site budgets with a clear process to attribute eligible overhead costs to each site. Annual audited financial statements must also be completed on a site (license) basis.

Top-Up Allocation:

As noted above, the top-up allocation may include one or more of a:

1. **Legacy top-up** for legacy centres/agencies in 2025 only to support their legacy cost structures in the transition to cost-based funding, if such structures mean that eligible costs will exceed their individual benchmark allocations for the calendar year. This step in the funding formula calculates the costs associated with the legacy centres'/agencies' 2023 cost structures, adjusted for eligibility, cost escalation, and changes to operating practices and fixed costs.

   If your organization is a legacy centre/agency you will be asked to submit financial information from 2023, including an audited 2023 Statement of Operations. This information must be submitted by site (license), for the calendar year of 2023 (January to December), and for eligible children only.

   If your legacy centre/agency can reasonably demonstrate that 2023 was an "abnormal" year (that is, not representative of expected or typical operations due to events or circumstances such as major illness, parental leave, or unforeseen closures), then the calculations in this step can use a single, "typical" month from 2023 instead of the entire year.

   Compare your 2023 costs to your typical 2024 costs. If you think 2023 was an abnormal year, contact the Funding Analyst at the County of Wellington to discuss this.

   In year funding adjustments and the year end reconciliation process will also provide an opportunity to review costs.

   If the 2023 Statement of Operations is aggregated across multiple licenses or if it includes services not included in the base fee you must use a reasonable split of costs to provide 2023 expenses for eligible children at the site level. See section above (Attributing Costs Amongst Sites) for more details.

   Where costs are incurred by a legacy centre/agency to serve both eligible (age 0 to 5) and ineligible children (age 6 to 12), a reasonable methodology to split eligible costs (that is, those attributable to the provision of child care included in the base fee) from ineligible costs must be employed.

Determining the Percentage Allocation of Eligible Children – for Centres

If your centre provides programmes that serve both CWELCC eligible and CWELCC ineligible children you must use the following methodology to split eligible costs from ineligible costs for 2023 total expenses, non-recurring costs and fixed costs.

As per Ministry of Education guidelines, "eligible child" means (a) any child, until the last day of the month in which the child turns six years old, and (b) up until June 30 in a given calendar year, any child who, (i) turns six years old before July 1 of that calendar year, and (ii) is enrolled in a licensed infant, toddler, preschool or kindergarten group, a licensed family age group, or home child care.

The following methodology will identify the percentage of 2023 costs that are attributable to CWELCC eligible children.

For programme staffing and operating costs:

Determine an eligible share by weighting operating spaces by age group using the programme staff-to-child ratio for each age group as defined in O. Reg 137/15 and typical hours of service for each age group, including only eligible age groups in the numerator and all age groups (eligible and ineligible) in the denominator.

For example:

> A legacy centre with 15 toddler spaces (eligible; staff to child ratio of 1/5; 10.5 hours per day) and 30 primary/junior school spaces (ineligible; weighted at a ratio of 1/15 and 4.5 hours per day) could use an eligible share for programme staffing and operating costs of:
>
> [15 x (1/5) x 10.5] divided by [(15 x (1/5) x 10.5) + (30 x (1/15) x 4.5)] = 31.5/40.5 = 78%
>
> In this example, 78% of the programme staffing and operating costs from 2023 should be used.

For supervisor costs:

Determine an eligible share by weighting operating spaces by age group using the programme staff-to-child ratio for each age group as defined in O. Reg 137/15, including only eligible age groups in the numerator and all age groups (eligible and ineligible) in the denominator.

For example:

> 15 toddler spaces (eligible; staff to child ratio of 1/5) and 30 primary/junior school spaces (ineligible; weighted at a ratio of 1/15) could use an eligible share for supervisor costs of:

[15 x (1/5)] divided by [(15 x (1/5)) + (30 x (1/15))] = 3/5 = 60%

In this example, 60% of the supervisor costs from 2023 should be used.

For accommodation costs:

Determine an eligible share by weighting licensed spaces by the maximum group size ratios as defined in O. Reg 137/15, including only eligible age groups in the numerator and all age groups (eligible and ineligible) in the denominator.

For example:

15 toddler spaces (eligible; weighted using maximum group size ratio of 1/15) and 30 primary/junior school spaces (ineligible; weighted using maximum group size ratio of 1/30) could use an eligible share for accommodation costs of:

[15 x (1/15)] divided by [(15 x (1/15)) + (30 x (1/30))] = 1/2 = 50%

In this example, 50% of the accommodation costs from 2023 should be used.

<u>Determining the Percentage Allocation of Eligible Children – for Agencies</u>

If your agency provides programmes that serve both CWELCC eligible and CWELCC ineligible children you must use the following methodology to split eligible costs from ineligible costs for 2023 total expenses, non-recurring costs and fixed costs.

For all costs:

Determine a ratio by dividing the number of eligible children enrolled by the total children enrolled.

For example:

An agency with 60 eligible children (aged 0 to 5 years) and 100 ineligible children (aged 6 to 12 years) could use an eligible share for all costs of:

60 divided by 100 = 60%

In this example, 60% of the agency costs from 2023 should be used.

2. **Growth top-up** for new centres/agencies in the calendar year, or existing centres/agencies that expand with approved, new licensed spaces/active homes in the calendar year. The growth top-up allocation is calculated by multiplying the benchmark allocation by a SSM specific growth multiplier.

Growth multipliers are applied at the SSM level to recognize geographic variation but, to simplify Cost-Based Funding Allocations for a smoother implementation, do not drill down further to smaller communities within SSMs. That is, the growth multipliers are determined using data from the entire SSM's region (not just the individual SSM) to represent typical costs across the SSM. See Schedule C of the Ministry of Education guideline for the growth multipliers.

A growth top-up allocation may be applied to new licensed spaces or new CWELCC enrolled sites. This allocation is only applicable to approvals made by the County of Wellington.

If you are interested in expansion (new programme or new, additional spaces) you must complete a Directed Growth Application.

There will be a process for an in year adjustment of funding if new, approved spaces are added during a calendar year.

3. **Rolling top-up** for eligible centres/agencies in calendar years after 2025 who received a top-up in the previous calendar year (either legacy top-up, growth top-up, rolling top-up, or some combination).

   See the Ministry of Education guideline for detailed information about calculating the Programme Cost Allocation.

5.0 CALCULATING THE ALLOCATION IN LIEU OF PROFIT/SURPLUS

In addition to the cost-based Programme Cost Allocation outlined above, the County of Wellington 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. This allocation is made up of the sum of three components for each license.

1. **Base rate amount**

   Multiply the base rate of 4.25% by the Programme Cost Allocation (benchmark allocation and top-ups).

2. **Premium rate amount**

   Multiply the premium rate of 3.5% by the benchmark allocation for the eligible centre/agency.

3. **Flat amount**

   Add a flat amount of $6,000 for the eligible centre/agency for the calendar year. Multiply the $6,000 by the whole number of months (partial or full) in the calendar year in which the eligible centre/agency participated in CWELCC, divided by 12.

   Like the Programme Cost Allocation, this allocation is meant as an in-year estimate of the Actual Amount in Lieu of Profit/Surplus, until Actual Programme Costs are determined at reconciliation. Upon reconciliation, the base rate of 4.25% would be applied to Actual Programme Costs and the premium rate of 3.5% would be applied to Actual Programme Costs up to the benchmark allocation.

See the Ministry of Education guideline for detailed information about calculating Allocation in Lieu of Profit/Surplus.

6.0 CALCULATING THE EXPECTED BASE FEE REVENUE OFFSET

An eligible centre's/agency's Programme Cost Allocation plus Allocation in Lieu of Profit/Surplus is offset by the Expected Base Fee Revenue for the calendar year to be earned from families, or others on behalf of families (this means, including fee subsidies).

As part of planning for the upcoming calendar year, eligible centres/agencies must estimate revenue expected from base fees and fee subsidies for eligible children. This information will be submitted as part of the "annual operating plan" via an online CWELCC Cost-Based Allocation Tool.

Estimated Base Fee Revenue: Child Care Centres

For eligible centres, the estimated base fee revenue is the sum of the base fee revenue associated with each operating space for eligible children (i.e. total number of operating spaces that are charged that daily base fee, multiplied by that base fee, multiplied by the number of service days those spaces would be charged that base fee).

Expected registration fees or other mandatory fees should also be included in Estimated Base Fee Revenue.

Estimated Base Fee Revenue: Home Child Care Agencies

For eligible agencies, the estimated base fee revenue is the sum of the base fee revenue associated with each active home seat for eligible children, whether paid directly to the agency or to the home child care provider (i.e. total number of active home seats expected to be charged that fee, multiplied by that base fee, multiplied by the number of service days those active home seats would be charged that base fee).

Expected registration fees or other mandatory fees should also be included in Estimated Base Fee Revenue.

Expected Base Fee Revenue Offset (Adjusted for Maximum Vacancy Rate)

To account for vacancies (for example, due to child turnover or room transition), the estimated base fee revenue will be multiplied by 0.90 for 2025, or 0.95 for subsequent calendar years to generate the Expected Base Fee Revenue Offset, which is used to calculate the eligible centre's/agency's Cost-Based Funding Allocation.

See the Ministry of Education guideline for detailed information about calculating the expected base fee revenue offset.

7.0 HOME CHILD CARE AGENCIES WITH ACTIVE HOMES IN MULTIPLE JURISDICTIONS

When an eligible agency has active homes in multiple SSM jurisdictions, the overseeing SSM receives an allocation to cover all the agency's active homes in its jurisdiction, as well as those falling in other SSM jurisdictions as of a date specified by the Province when it communicates the allocations for the calendar year (the "specified date"), but not active homes created within other ("secondary") SSM jurisdictions after the specified date.

In turn, the overseeing SSM will allocate funding to eligible agencies to cover all such active homes, including those within "secondary" SSM jurisdictions as of the "specified date."

If an eligible agency created an active home in another SSM jurisdiction after the "specified date" (in alignment with that SSM's Directed Growth Plan), the "secondary" SSM will allocate funding to the eligible agency on account of those active homes, until such time as the Province provides a new "specified date."

For 2025, this "specified date" is December 31, 2022.

When the Ministry of Education communicates allocations for the next calendar year, the funding (and, responsibility for allocating that funding) for any active homes created between the previous and new specified dates will shift to the overseeing SSM.

All eligible agencies with active homes in other SSM jurisdictions should contact and work with the County of Wellington to ensure an accurate calculation of their cost-based funding allocation.

8.0 PAYMENTS AND IN-YEAR FUNDING ADJUSTMENTS

Payments:

SSMs must pay Cost-Based Funding Allocations in regular installments, at the beginning of every payment period, throughout the calendar year and must reconcile those allocations against Actual Cost-Based Funding based on Actual Programme Costs.

The County of Wellington will issue payments monthly, on the first of each month.

Lower Cost-Based Funding Allocation:

To avoid the recovery of significant overpayments at year-end, an operator may agree to a lower Cost-Based Funding Allocation for an eligible centre/agency.

The County of Wellington will identify potential operators that may benefit from a lower Cost-Based Funding Allocation and contact them for discussion. They will do this by:

- Comparing the new Cost-Based Funding Allocation to prior years' funding
- Identifying an increase that is a higher percentage than other operators' increases
- Reviewing the results of in-year cost reviews

You can request a lower funding allocation by contacting the Funding Analyst at the County of Wellington.

This is important as the allocations the centre/agency receives will be compared against Actual Cost-Based Funding based on Actual Programme Costs at the year end and reconciliation cost recovery will occur.

In-Year Funding Adjustments:

Reconciliation of Cost-Based Funding Allocations can be performed periodically throughout the calendar year. The purpose of these in-year reconciliations is 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.

If an in-year change is required, the Cost-Based Funding Allocation will be updated (for example, by replacing the old number of operating space-days with the new number) on a go-forward basis.

The calculations that result in the Cost-Based Funding Allocation allow for in-year adjustments stemming from, for example:

- A change in operating space-days due to a change in staffing complement
- A change in licensed spaces for an existing centre/agency
- The agreement of an operator to reduce their Programme Cost Allocation for an eligible centre/agency to reduce the need for year-end recoveries
- The determination of the previous year's actual eligible costs, affecting the rolling top-up for an eligible centre/agency
- The operator stops participating in CWELCC in respect of that eligible centre/agency

The County of Wellington will conduct in-year funding adjustment reviews at mid-year.

Contact the County of Wellington if you think you require an in-year adjustment outside of this point in time.

One-Time, Unexpected Costs:

SSMs may use any funding flexibility to support eligible centres/agencies that incur non-discretionary and unexpected eligible costs above their Programme Cost Allocations (such as emergency capital repairs to minor assets).

If your centre/agency requires additional funding for non-discretionary and unexpected eligible costs above your centre's/agency's Programme Cost Allocations, you can apply to the County of Wellington for these one-time unexpected costs.

You can apply for one-time, unexpected costs via an online application form.

9.0 CALCULATING THE ACTUAL COST BASED FUNDING (RECONCILIATION)

SSMs must compare the funding provided to an eligible centre/agency against the eligible centre's/agency's Actual Cost-Based Funding for the calendar year and recover any overpayments.

These comparisons (also known as 'reconciliations') must be performed annually, after the end of the calendar year.

On reconciliation, SSMs must evaluate eligible costs incurred for the eligible centre/agency during the calendar year and calculate any overpayment, if applicable.

The overpayment calculation involves two steps:

1. Funding provided in respect of the eligible centre/agency, minus
2. The eligible centre's/agency's Actual Cost-Based Funding

See the Ministry of Education guideline for detailed information about calculating the Actual Cost Based Funding.

As noted above, the County of Wellington will conduct in-year reporting and funding adjustment reviews at mid-year.

In addition to this, there will be an annual year end reconciliation (through the submission of a year-end report), a compliance assurance process and cost reviews. The compliance assurance process and cost reviews are outlined further in section 10.0 (Accountability Framework).

Annual Year End Reconciliation:

The County of Wellington will send a year-end report to you in November of each year. You must report actuals by end of January. At that time a year end reconciliation and cost recovery, if necessary, will be conducted.

10.0 ACCOUNTABILITY FRAMEWORK

The Principle-Based Definition of Eligible Costs:

SSMs must assess whether a centre's/agency's costs are eligible for cost-based funding when calculating legacy top-ups in 2025 and, for 2025 and future calendar years, when evaluating Actual Cost-Based Funding on reconciliation and conducting cost reviews.

The principle-based definition of eligible costs is designed to balance the objective of supporting operator participation in the CWELCC programme 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 SSMs and operators and supporting high-quality learning environments for the benefit of eligible children in the operator's care.

When evaluating whether costs incurred by the operator in the calendar year for the purpose of providing child care for eligible children in an eligible centre/agency in Ontario are eligible for funding, the following will be considered. Are the costs…

- **Attributable** to the provision of child care included in the base fee for eligible children
- **Appropriate** for the provision of child care for eligible children
- **Reasonable** in quality and amount, having regard to all the relevant circumstances

"Attributable" and "appropriate" determine whether a 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.

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	An 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: (c) Quality of the good or service; and, (d) 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).

Eligible Costs:

Eligible costs are those incurred in the daily operations of a licensed child care centre/agency, and may include:

- **Wages and Benefits**: For staff, including CWELCC eligible programme staff and supervisors, in line with wage enhancement programmes[1]
- **Accommodations**: Rent, mortgage, property taxes, utilities, maintenance, and repairs for CWELCC eligible programmes
- **Operational Costs**: Insurance, programme supplies, food, cleaning, and administrative expenses for CWELCC eligible programmes
- **Minor Capital Assets**: Small repairs or equipment purchases necessary for daily operations in CWLECC eligible programmes

Determination of eligible costs will be viewed using the three principles noted above: attributable, appropriate, reasonable.

Ineligible Costs:

Ineligible costs include:

- **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.
- **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.
- **Capital Renewal for Major Repairs of Sites of Existing Spaces:** Capital renewal funding for major repair costs is not included in benchmarks. For example: Leaking roof, building foundation, heating/cooling system, ventilation system, sump pump, emergency lighting, accessibility, windows or doors, asbestos removal or encapsulation, secure entrances and wiring upgrades
- **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.

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[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 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.

- **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.
- **Penalties, fines, forfeitures, or liquidated damages:** Any penalties, fines, forfeitures, or liquidated damages incurred by the operator are excluded.
- **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.

Assessing Eligible Costs:

Any CWELCC funding that is used for ineligible costs may result in year-end recoveries. To minimize this risk, centres/agencies should not incur ineligible costs. If in doubt, before incurring the cost, you may seek guidance from the County of Wellington related to cost eligibility.

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

See the pages 44 and 45 of the Ministry of Education guideline for examples of assessing eligible costs.

In order to assess eligible costs the following actions will be taken:

- Operators will submit an *audited financial statement* following the end of the calendar year, including 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 the SSM.
- Operators will submit *standardized financial reports* for each eligible centre/agency following the end of the calendar year providing the breakdown of eligible costs, following the categorization of components of benchmark allocations (for example, programme staffing, accommodations).

- Per the Compliance Assurance section below, the County of Wellington will 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.
- In addition to those selected for a Direct Engagement to Report on Compliance, the County of Wellington may review standardized financial reports or other available information and identify any risk of cost ineligibility.
- Where a risk of cost ineligibility is identified, the County of Wellington will follow up with the operator for more information relevant to their assessment of eligible costs (such as copies of receipts, quotes, details of circumstances).
- The County of Wellington will review information provided by the operator to assess the eligibility of costs claimed. In conducting that review, the County of Wellington could consult with other SSMs, as appropriate, to support consistency of administration and consider costs incurred by comparable eligible centres/agencies.
- Where the County of Wellington identifies an ineligible cost, they will:
    - Document the rationale for identifying that cost as ineligible
    - 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).
- In case of disagreement, the County of Wellington and operator must follow the dispute resolution process established by the County of Wellington (see section below).

Compliance Assurance: Direct Engagement to Report of Compliance:

Starting with the 2025 calendar year, as part of the reconciliation process after the end of each calendar year, SSMs must select a 5% sample of eligible centres/agencies that received cost-based funding for the calendar year, to undergo a Direct Engagement to Report on Compliance. This Report on Compliance will support the SSM's verification that the offsetting base fee revenue and costs reported on the standardized financial report were eligible and in compliance with Ministry guidelines.

Report on Compliance will also confirm that amounts claimed for the eligible centre/agency on their standardized financial report are eligible costs, and that a reasonable methodology has been employed to pro-rate costs, where necessary.

A Direct Engagement to Report on Compliance will be performed by an independent third-party practitioner (that is, an external professional auditor) under the reasonable assurance engagement in accordance with Canadian Standard on Assurance Engagements 3531, Direct Engagements to Report on Compliance. The practitioner's responsibility is to express an opinion on the operator's compliance with this guideline in all significant respects.

The County of Wellington is responsible for the performance of the Direct Engagement to Report on Compliance for the selected eligible centre/agency and will pay for it on their behalf.

In order to select the 5% sample of eligible centres/agencies each year, the County of Wellington will select a stratified random sample of centres/agencies (i.e. based on being representative of the different types of operations, auspice, size, centre vs. home-based) along with those centres/agencies that are identified based on certain criteria (i.e. one-time funding, large cost recovery, compliance issue in the past, etc.).

Cost Reviews:

To support Ontario's cost control framework, in accordance with sound and reasonable use of public funding as required under the CWELCC agreement, the Ministry of Education is directing SSMs to review the costs of legacy (for 2025) or existing (for calendar years after 2025) eligible centres/agencies with the most disproportionately high top-up allocations. The goal of these cost reviews is not to reduce quality, but to gradually shift the overall cost of providing child care (that is, child care included in base fees) towards more standardized costs, as represented by benchmark allocations.

Cost Review Selection Criteria

As per the Ministry of Education guideline, the cost review selection criteria include:

- Existing centres/agencies whose top-up ratios, calculated as the eligible centre's/agency's legacy top-up (for 2025 only) or rolling top-up (for calendar years after 2025) divided by their benchmark allocation, exceeds the County of

Wellington-specific growth multiplier for the calendar year (Schedule C of the Ministry of Education guideline)

- Existing centres/agencies who were selected for a cost review in a previous calendar year are not subject to a new cost review in the current calendar year as long as the operator continues to work on their cost reduction actions (that is, any existing centre/agency may only be selected for one cost review)
- By March 31 of each calendar year, after calculating eligible centres'/agencies' Cost-Based Funding Allocations for the calendar year, the County of Wellington will select and engage for a cost review:
    - The top 10 per cent of all existing centres/agencies in descending order of top-up ratio, or
    - The total number of existing centres/agencies subject to cost reviews,
    - Whichever group is smaller

Cost Review Process

In collaboration with each existing centre/agency selected for a cost review, the County of Wellington will seek to identify potential cost reductions, such as:

- Any costs that are, in fact, ineligible, in which case the County of Wellington will reduce the existing centre's/agency's Cost-Based Funding Allocation for the calendar year; or
- Opportunities for improved efficiencies in eligible costs, considering all the circumstances, including costs that:
    - may not provide significant value to the quality of the child care being provided, such as redundant costs that could be eliminated; or
    - could be incurred in more efficient ways, such as through bulk ordering, outsourcing of certain tasks, or other common business approaches.

It is possible that no such cost reductions can be found, in which case no further actions will be taken. For example, reductions of eligible costs may not be possible where those costs are incurred due to particular circumstances, such as:

- An existing long-term lease;
- Geographic remoteness;
- Dietary restrictions where food supply is limited and the cost is higher;

- Staffing costs associated with child care being provided in a particular language where labour supply is limited or more expensive; or,
- Costs associated with specific value propositions included in base fees, including music or swimming lessons or other pedagogical inclusions.

In cases where opportunities for improved efficiencies in eligible costs are identified and agreed upon between the County of Wellington and operator, the County of Wellington may reduce the existing centre's/agency's Cost-Based Funding Allocation in accordance with a reasonable schedule by which the costs can be reduced (for example, accounting for time-limited contractual obligations). This schedule may last beyond the end of the calendar year but should not exceed December 31 of the third subsequent calendar year.

Cost reviews will be completed by December 31 of the calendar year, including the identification of a reasonable schedule to reduce eligible costs, where applicable.

See the Ministry of Education guideline for detailed information about these accountability aspects of the Cost-Based Funding Allocation.

11.0 DISPUTE RESOLUTION

Operators and applicants have the right to have a review of their CWELCC application and/or funding decisions if they so request one.

The full *Wellington Canada-Wide Early Learning and Child Care (CWELCC) Funding Dispute Resolution Policy* can be found on the County of Wellington's website.

Operators and applicants may appeal the following situations:

- Declined applications;
- Funding agreement termination; or
- CWELCC funding calculations

Internal Review

Child care operators or applicants who would like a decision related to their eligibility for CWELCC reviewed, may submit a request to CEYD@wellington.ca within five (5) business days from an eligibility decision requesting a review of the decision. The County of Wellington will provide a Request for Review of Decision Form to be completed.

The County of Wellington will review all funding dispute submissions alongside relevant Wellington policies and provincial legislation and guidelines to ensure that all decisions made are in accordance with the requirements.

Operators will receive a decision of their internal review in writing within ten (10) business days of receipt of all applicable documentation required to complete the internal review.

Appeal

If an operator disagrees with the results of the internal review, a request for an appeal can be made within five (5) business days upon receipt of the internal review decision. A request in writing indicating why the internal review requires an appeal along with the internal review decision document and any supporting material must be submitted to the attention of the Director of Children's Early Years by email to CEYD@wellington.ca.

Additional documentation may be required. The Director of Children's Early Years will review all appeal submissions to ensure all related Wellington policies adhere to and are in line with relevant provincial policy and direction. Operators will receive a decision from the Director of Children's Early Years of their appeal in writing within ten (10) business days of receipt of all applicable documentation required to complete the appeal.

12.0 OTHER

Other Revenue Sources (e.g. fundraising or interest income):

The regulatory framework under the *Child Care and Early Years Act, 2014* does not prohibit operators from using other revenue sources. Other revenue such as donations or fundraising (that are not mandatory for families), non-base fees revenue, and interest income **must not** be factored in the calculation of either Cost-Based Funding Allocations nor Actual Cost-Based Funding.

Any gains resulting from the sale of minor capital assets purchased with cost-based funding must reduce eligible costs for the calendar year in which the sale takes place.

Costs funded by another public source or reimbursed by another source (such as by insurance claims) are not eligible costs.

Sale of CWELCC-Enrolled Business:

Funding is tied to the license, and licenses are not transferable. The transfer of assets to a new person would require that the new person obtains a new license, and licenses obtained after the announcement date are not eligible for legacy top-ups. However, the transfer of shares of an operator that is a corporation may not change the license, and, in this case, eligibility for legacy top-up for the eligible centre/agency would remain.