# 2025 CWELCC Cost-Based Funding Formula

# Frequently Asked Questions

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Created: December 2024

Hamilton

## Reporting Requirements

**Q1. Are we required to provide site-level audited financial statements for each calendar year with year-end reporting?**

A1. Licensees must submit annual audited financial statements for the period of January to December following the end of the calendar year. An annual attestation must also be signed by an officer with the appropriate signing authority (e.g., a director or equivalent), confirming that CWELCC funding has been used in accordance with the guidelines.

For multi-site organizations, the audited statements can be in a consolidated format. In addition to the audited statements, all licensees must submit a standardized financial reporting template (provided by the City of Hamilton), for each eligible site/agency following the end of the calendar year with the breakdown of eligible costs. The summation of the cost breakdowns must tie back to the licensee's audited statements. Licensees are advised to have their auditor review the completed template before submission to ensure compliance.

**Q2. Can we use our current auditor for the 2025 calendar year, or will the City of Hamilton appoint one?**

A2. Licensees are to use their own independent licensed auditor/auditing firm to complete their audited financial statements. This is separate from the Direct Review and Engagement on Compliance.

**Q3. What is the "Direct Engagement to Report on Compliance"?**

A3. Starting in 2025, the City of Hamilton will implement Direct Engagements to Report on Compliance, replacing the annual compliance audit process. This initiative ensures the accountable use of public funds within the CWELCC program.

Each year, the City will select a 5% sample of eligible centers/agencies for compliance review. These reviews will be conducted by an independent third-party practitioner (e.g., an external auditor) and funded by the City of Hamilton.

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## Cost-Based Funding Approach

**Q4. Where can I find Ontario's Ministry of Education 2025 Cost-Based Funding Guidelines?**

A4. The Ministry's 2025 Cost-Based Funding Guidelines and related FAQs are available on the Ministry of Education's website.

**Q5. Will funding or payments be broken down by site so for internal tracking?**

A5. While the City of Hamilton will allocate funding to licensees at the head office level, the funding schedule provided will detail allocations by site for transparency. Licensees are required to track eligible costs at the site (license) level.

**Q6. Why is the CWELCC funding approach changing from revenue replacement to a cost-based approach?**

A6. The province is changing the funding approach to a cost-based approach to better reflect the true cost of providing child care. Under the new cost-based funding model, licensees will receive benchmark funding that is representative of the typical costs of providing high-quality child care in Ontario. The province expects that the new approach will provide more stability and predictability for licensees.

**Q7. For multi-site licensees, can funding be flexible between sites?**

A7. The cost-based funding model provides site-specific benchmarks and legacy top-ups (if applicable) to ensure adequate funding. Multi-site licensees must allocate resources based on the costs incurred at each site.

**Q8. How were the benchmarks in the cost-based funding approach developed?**

A8. The Ministry of Education developed benchmarks by analyzing data from the child care sector, adjusting for cost escalation and regional factors (e.g., the Geographic Adjustment Factor for Hamilton includes Niagara, Brantford, and Norfolk). Benchmarks represent typical costs for eligible centers/agencies.

The purpose of the benchmark allocation is to generate initial, cost-based funding amounts that represent typical costs for eligible centres/agencies, adjusted for regional differences, to help ensure that similar eligible centres/agencies receive similar funding. The benchmarks are intended to be an average representation of the cost of child care.

**Q9. Will there be adjustments to funding beyond 2025 for increased costs and inflation?**

A9. The Ministry's cost-based funding allocation provides funding to each eligible centre/agency based on benchmarks and appropriate top-ups and accounts for cost escalation and other policy changes.

The Ministry of Education has not confirmed any planned updates to the cost-based funding approaches or benchmarks that it will use for years beyond 2025.

**Q10. Will licensees continue to receive the General Operating and Wage Enhancement Grants in 2025?**

A10. Starting January 1, 2025, the General Operating Grant (GOG), Wage Enhancement Grant (WEG), and Home Child Care Enhancement Grant (HCCEG) will be integrated into the CWELCC funding allocation for age groups 0–5.

**Q11. Will there be any emergency funding if licensees have unexpected, non-discretionary costs in 2025 such as critical repair and maintenance expenses?**

A11. Licensees should plan proactively for emergency costs and consider using other revenue sources available such as reserves and non-base fee revenue, other government funding or loans to cover such unexpected costs.

## Benchmark Allocations

**Q12. Are existing loans an eligible expense in the cost-based model?**

A12. Loans may qualify as an eligible expense if they are directly related to non-recurring eligible costs, include contractual obligations (i.e., interest and repayment requirements), and the finance costs do not exceed the interest rates outlined by the Canada Small Business Financing Program rates.

In cases where there is a non-arms-length relationship with shareholders, licensees must demonstrate that the interest rate is comparable to market rates and not artificially inflated.

**Q13. For licensed home child care agencies, is the benchmark based on active homes or licensed capacity?**

A13. The benchmark allocation is based on active homes and active home-days, considering service days and eligible child care activity.

The number of active homes means a home child care, overseen by an agency with at least one eligible child, and is used to calculate provider compensation, visitor compensation and agency operations. Active home-days is the sum of the number of service days applicable to each active home in the agency.

**Q14. Can unspent program staff allocations be used for operational expenses or is the licensee required to return it to the city?**

A14. Yes, there is flexibility within the benchmark allocation. Total funding can be used across all four benchmark components: staffing, supervision, accommodations, and operations. This means that the eligible costs do not need to align with each benchmark allocation component (for example, some licensees may have relatively high accommodation costs but low operations costs, or vice versa).

**Q15. Will licensees be allocated a total cost-based funding allocation or is it broken down by program cost components?**

A15. Licensees will receive a total cost-based funding allocation which consists of the four benchmark components: program staffing, supervisor costs, accommodations, and operations. Individual eligible costs do not need to align exactly with each benchmark component, allowing flexibility for licensees with varying cost structures. For example, some licensees may have higher staffing costs but lower operations or accommodations costs.

## Legacy Top-ups

**Q16. How do I know if I'm eligible for legacy top-up funding? Are there any further requirements?**

A16. There is no application or additional requirements for legacy top-up funding. Each licensee will be assessed based on their eligible costs using 2023 audited financial statements and 2025 budget information.
Eligibility criteria:
a) Enrollment in CWELCC on or before August 14, 2024.
b) Demonstration that eligible operating expenses exceed the calculated cost-based benchmark allocation.
Legacy top-up funding applies only to 2025 and becomes part of the rolling top-up after 2025.

**Q17. If the benchmark and legacy top-up allocations are not fully spent, can licensees retain the remaining amounts as profit?**

A17. No, unspent benchmark and legacy top-up allocations cannot be kept as profit. Initial funding allocations are based on data provided by the licensee. During year-end reconciliation, the City will compare funding received with actual eligible costs. Any unused funds will be recovered.

**Q18. Will the legacy top-up support the difference between the benchmark and actual accommodations costs?**

A18. Yes. The Ministry has indicated that benchmark allocations will be sufficient to cover the costs for most licensees. If the eligible costs exceed the benchmark allocation a legacy top-up can support eligible licensees in the transition to cost-based funding.

**Q19. How are 2023 legacy costs adjusted for increased operating costs in 2025?**

A19. The Ministry applies two factors to adjust 2023 legacy costs for 2025:

**Cost escalation factor** (1.0465%) to account for inflation.

**Operating scaling factor** to evaluate operational capacity by age group, based on the licensee's 2025 operating plan and 2023 actuals.

**Q20. Can you clarify the definition of "controlling owner"?**

A20. A controlling owner is considered the person who holds a significant amount of a company's ownership, giving them the ability to influence or direct the management policies and major decisions. Typically, this is someone holding more than 50% of the shares.

**Q21. How does the controlling owner's salary and benefits factor into the calculation?**

A21. The controlling owner's compensation is calculated based on **one** controlling owner's salary (with T4 and pay cheque) across all licenses they operate in Ontario, meaning the controlling owner's compensation for labour can only be claimed **once**. This calculation is included in the legacy top-up component of the funding model.

**Q22. What if a licensee did not pay any wages or benefits to owners in 2023? How is this reflected in the legacy top-up?**

A22. In 2023, some legacy centres/agencies may have provided dividends or other benefits instead of a salary to controlling owners who contribute labour to the operation of their child care businesses. Since dividends or other benefits are not eligible costs under the cost-based funding approach, they are excluded from the calculation of a legacy top-up.

As these forms of compensation are ineligible, the Ministry has accounted for one controlling owner's compensation through a fixed amount of $465/service day to a maximum of 261 days (or $121,365 annually) in the calendar year.

## New Growth Top-up

**Q23. What is the growth multiplier? Is it the same as the inflation rate?**

A23. The growth multiplier is not the same as the inflation rate. The growth multiplier is used to calculate growth top-up for new licensed spaces in existing centres or new active homes associated with existing agencies.

The City of Hamilton's growth multiplier is 21%.

**Q24. How do I become eligible for the New Growth top-up?**

A24. The growth top-up recognizes that the benchmark allocation may not be enough to cover the operational costs of new spaces.

In order to support the creation of new child care spaces, newly enrolled operators (or expanding legacy operators) will be able to spend up to benchmarks plus a "growth top up," recognizing the additional costs associated with operating new spaces in certain communities.

Through the City of Hamilton Directed Growth Application, you can apply for directed growth community-based spaces. Please see our website for further details.

## Allocation in Lieu of Profit/Surplus

**Q25. Is every licensee eligible for an Allocation In Lieu of Profit/Surplus? Is this calculated per site or per organization?**

A25. Yes, every licensee is eligible for an Allocation In Lieu of Profit/Surplus. This funding component is calculated at the site level.

**Q26. As a multi-service organization, the profits from the preschool program support other programs. Can this occur through the new funding model?**

A26. No. The cost allocation and in lieu of profit and surplus are to be used to reinvest in CWELCC eligible child care spaces and cannot be used to support other programs.

**Q27. Is a licensee's profit margin capped at 8%?**

A27. The Ministry has stated the average allocation in lieu of profit/surplus is approximately 8%, but the percentage may vary based on final reconciliation calculations.

The allocation is reconciled at year-end as follows:

1. **Base rate:** 4.25% of the actual program cost.
2. **Premium rate:** 3.5% of the lesser of the actual program cost or the benchmark allocation for the eligible centre/agency's program cost allocation.
3. **Flat amount:** $6,000 per calendar year (this amount is not adjusted during reconciliation).

**Q28. Are there restrictions on how the allocation in lieu of profit/surplus is spent?**

A28. Yes. The allocation is intended to support reinvestment in CWELCC affordable child care spaces. The allocation is subject to recalculation and reconciliation at year-end. If actual program costs are lower than the allocated program cost, the allocation may be adjusted. Licensees should consult Ministry Guidelines to ensure eligible costs align with CWELCC principles.

## Base Fees, Non-Base Fees, and Fee Reduction

**Q29. What if a licensee's average vacancy rate is more than 10%?**

A29. The Ministry has set a 10% vacancy rate for 2025 to account for short-term vacancies due to child turnover or room transitions. When the City completes the year-end funding reconciliation:

- The base fee revenue offset is greater than the actual eligible base fee revenue earned by the licensee, or the expected base fee revenue offset calculated at the start of the year.

- CMSMs may allow actual base fee revenue offsets to fall below the expected offset for extenuating circumstances causing a vacancy rate above 10%.The City of Hamilton and licensees are encouraged to work collaboratively to minimize vacancies, such as coordinating waitlists across centers.

**Q30. Do we reduce fees by 25% to a cap of $22 per day, or change all fees to $22 daily as of January 1st?**

A30. Base fees for CWELCC licensees will be capped at $22 per day, effective January 1, 2025.

- Fees on January 1, 2025, will either be $22 per day, or the reduced fee charged on December 31, 2024, whichever is lower.
- Families currently paying less than $22 per day will continue paying their existing fee.

**Q31. Can we introduce any new non-base fees not charged before 2022?**

A31. Yes. Licensees can find other non-base fee revenue sources to enhance their program quality.

These fees will be treated as follows:

- Non-base fees are not part of the fee cap and will not be factored in the calculation of cost-based funding allocations/funding.
- Costs associated with providing non-base fees services (such as late pickups, field trips, etc.) must be tracked separately as they are not an eligible expense under the cost-based funding approach.

The regulatory framework under the *Child Care and Early Years Act, 2014* does not prohibit licensees 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 will not be factored in the calculation of either cost-based funding allocations or actual cost-based funding.

**Q32. Can licensees continue to charge families registration fees?**

A32. Yes, licensees may continue to charge families registration fees or opt to waive registration fees in 2025.

- Registration fees must remain frozen at March 27, 2022, levels.
- Families are eligible for a 52.75% fee reduction on registration fees for eligible children. For example, a $100 fee would be reduced to $47.25.

- Registration fee revenue must be included in the Estimated Base Fee Revenue and will reduce program cost allocations accordingly.

Refer to the **December 3, 2024, memo from Holly Moran** for details.

**Q33. Are the benchmarks supposed to replace the parent fee revenue?**

A33. No, benchmarks will not fully replace reduced parent fee revenue. Licensees will continue collecting reduced fees from parents. Benchmark allocations represent typical costs incurred for CWELCC-eligible child care.

## Workforce Compensation and Wage Enhancement Grant

**Q34. Is General Operating Grant (GOG) a separate allocation in addition to the cost-based allocation?**

A34. No, the Ministry of Education has integrated routine operating funding (i.e., general operating grant) into the cost-based funding under CWELCC for children ages 0-5. Routine funding such as GOG will not be paid on top of the benchmark allocations.

**Q35. Are licensees required to make adjustments to staff wages effective immediately since we were not adding GOG in the calculations of the CWELCC wage support?**

A35. No. Staff wages must remain constant until staff qualify for additional increases.

The Ministry has found that different service system managers may have been inconsistently applying provincial guidelines regarding eligibility for wage improvements (such as CWELCC wage supports). This means that staff in some regions may have received their entire CWELCC wage increases up front, rather than gradually.

The city of Hamilton will not be required to recover related funding that has already flowed to licensees for wage increases.

**Q36. Can a licensee have staff over the ratio requirements such as float staff?**

A36. The program staffing benchmark allocation is calculated to account for pay and benefits for all eligible program staff in eligible centres counting towards ratio requirements *in* *O. Reg 137/15* under the *Child Care and Early Years Act*. There is also an ancillary multiplier built into the calculation to reflect typical ancillary costs such as supplementary benefits or supply coverage for vacation or sick days. The operations benchmark also accounts for non-program staff pay and benefits. A licensee's individual eligible costs do not need to align exactly with each benchmark allocation, as some individual costs may vary. For example, some licensees may have higher staffing costs but lower operations or accommodations costs. This provides flexibility in situations where licensees have higher program staffing costs.

**Q37. Will the wage floor and wage ceiling for eligible Registered Early Childhood Educators (RECEs) continue? Will workforce compensation funding be provided in addition to the cost-based allocation?**

A37. Yes, the wage floor and ceiling for RECEs will remain. Workforce funding is now integrated into the cost-based benchmark for CWELCC children ages 0-5.

| Wage Eligibility Ceiling 2022 to 2026* | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|
| RECE Program Staff | $25 | $26 | $27 | $28 |
| RECE Child Care Supervisors & RECE Home Child Care Visitors | $25 | $29 | $30 | $31 |

Staff wages must remain constant until staff qualify for additional increases.

**Q38. Is there funding allocated for staff sick days and health benefits?**

A38. Yes. Program Staffing, Supervisor, and Home Visitor benchmark allocations include funding for benefits and ancillary costs, such as sick days and supplementary benefits.

**Q39. Will CWELCC-enrolled licensees continue to receive WEG and CWELCC workforce funding for school-age staff supporting 6-12 age groups in 2025?**

A39. Yes, CWELCC-enrolled licensees will continue receiving separate WEG and CWELCC workforce compensation funding for school-age staff supporting 6-12 age groups in 2025.

Staff wages are not to be reduced.

## Fee Subsidy

**Q40. How will fee subsidy be impacted?**

A40. Families currently receiving fee subsidies will experience no disruptions.

- Newly qualified families with children aged 0-5 must use CWELCC-participating centers.

- Families with children aged 6–12 can use CWELCC or non-CWELCC programs.

For non-CWELCC licensees, existing fee subsidy agreements may continue to be funded until the benefiting child ages-out of the program or leaves the centre/agency

**Q41. Do you foresee any changes in the future for paying for children in receipt of fee subsidy on closure days (i.e. Civic holidays, emergency closures, snow days)?**

A41. No changes are anticipated to the Fee Subsidy policy.

## Next Steps

**Q42. If I remain in the system as of January 1, 2025, am I required to stay in for all of 2025?**

A42. The city is committed to working with the licensees to understand their allocation and make the best decision for their organization. You may provide a 90-day notification of your intent to opt out of CWELCC to the City 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.

If licensees continue in the program, they are not required to remain in CWELCC for all of 2025. Before you decide to opt-out, please email CWELCC@hamilton.ca to discuss your concerns with us.

**Q43. What happens if a licensee opts out starting January 1, 2025, and wants to opt back in later?**

A43. Licensees must reapply through the CWELCC Directed Growth Application. However, re-entry opportunities may be limited, and reapplication does not guarantee acceptance. Please see our Child Care Directed Growth Application link.

**Q44. My child care program is serving ages 0-5 and not enrolled in CWELCC. Can I still apply for an agreement for WEG/HCCEG funding?**

A44. No, only CWELCC-enrolled licensees are eligible for federal or provincial funding for children ages 0–5, aside from existing fee subsidies.

**Q45. If I currently have a Core Funding Agreement, or Wage Enhancement Grant agreement and am not enrolled in CWELCC, will I continue to have one in 2025?**

A45. No. Licensees not participating in CWELCC will no longer receive routine funding under the new cost-based funding model.

- Non-CWELCC licensees can still operate under the provincial licensing framework.
- Existing fee subsidy agreements may continue until children age out or leave the program.
- Licensees wishing to join CWELCC must apply through the Directed Growth Application.