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for Consolidated Municipal Service Managers and District Social Services Administration Boards

Part [XX]: CWELCC Cost-Based Funding Guideline

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DEFINITIONS

Unless otherwise specified, the terms used in this document have the same meaning as set out under the *Child Care and Early Years Act, 2014*, its regulations and the Transfer Payment Agreement between Ontario and the CMSM/DSSAB.

"active home" means 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" means 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)" means the standardized cost metric(s) published by the Ontario Ministry of Education in Schedule A for the calendar year.

"calendar year" means the period from January 1 and December 31. For clarity, if a particular year is specified in this guideline (such as "2025"), it refers to the respective calendar year.

"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.

"eligible centre/agency", means a child care centre/home child care agency that is:

(a) enrolled in CWELCC; and,

(b) eligible for funding under CWELCC (for example, the licensee maintains financial viability as described in <<appropriate section of Guidelines (TBD)>>).

“eligible costs” means 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.

For greater certainty, the following are not eligible costs:

(d) 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);

(e) costs for capital renewal for major repairs of sites of existing spaces;

(f) financing costs exceeding Canada Small Business Financing Program Rates;

(g) costs funded by another public source or reimbursed by another source (such as by insurance claims); and,

(h) 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” means a child care space in an eligible centre, in which, pursuant to the centre’s licence, the centre is authorized to enrol 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” means an eligible centre/agency in the first calendar year enrolled in CWELCC (cannot be a legacy centre/agency).

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

“service day” is 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 licensee 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.

“vacancy rate” means 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.

INTRODUCTION

This document (the **"CWELCC Cost-Based Funding Guideline"** or "this guideline") describes 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 and provides guidance for CMSMs/DSSABs to support the administration of that calculation.

For clarity, the cost-based funding approach described in this guideline 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 with 2025, licensees are funded based on eligible costs incurred in the calendar year in respect of eligible centres/agencies, up to a maximum amount of funding determined by the formula described in this guideline.

To support the principles and smooth implementation of cost-based funding, CMSMs/DSSABs and licensees should adopt an approach of open, early, and appropriate communication. For example, CMSMs/DSSABs may provide licensees with early guidance related to cost eligibility. For clarity, 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.

For information and guidance about early years and child care funding, beyond the calculation of CWELCC cost-based funding, including administration of the CWELCC program more broadly, CMSMs/DSSABs should refer to <<appropriate section(s) of Guidelines (TBD)>>.

Objectives & Overarching Principles

The CWELCC cost-based funding approach (sometimes referred to as the "funding formula") is guided by the following objectives and principles, which CMSMs/DSSABs must consider in the administration of CWELCC cost-based funding:

Objectives:

- **Support licensee participation** in the CWELCC program 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.

Principles:

- **Transparent**: Clear and consistent approach, both locally and across CMSMs/DSSABs so that licensees 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.

Key Concepts

From the introduction of CWELCC in 2022 through to December 31, 2024, licensees were funded based on a replacement of revenue "lost" due to base fee reductions now imposed under O. Reg 137/15. While a revenue replacement approach is transparent and simple to implement, it is not responsive to the true cost of providing child care in Ontario.

For 2025 and future calendar years, the cost-based funding approach seeks to address this issue by providing 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.

The cost-based funding approach is structured around the following basic concepts, described in further detail in Table 1, below:

(1) **Program 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 licensees 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.

When planning for the use of funding in lieu of profit/surplus (for example, for investment in major capital assets), licensees should consider that the Allocation in Lieu of Profit/Surplus is subject to re-calculation (and potential reconciliation) after year-end if the Actual Program Costs, as described in Table 1 below, are less than the Program Cost Allocation.

(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 program 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 a licensee 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 enable licensees to incur eligible costs in respect of eligible centres/agencies to provide child care to eligible children during the calendar year, CMSMs/DSSABs issue advanced payments (per relevant CWELCC service agreements) of a "Cost-Based Funding Allocation" determined by the same formula, somewhat analogous to tax withholdings on an employee's pay, where their actual tax liability is determined at the end of the 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.

CONCEPT	THROUGHOUT CALENDAR YEAR (Notional "Allocations")	AT END OF CALENDAR YEAR ("Actuals", after reconciliation)
PROGRAM COSTS The eligible costs of providing child care	**PROGRAM COST ALLOCATION** *Benchmark allocation plus any applicable top-up allocation* • "Benchmark allocation" represents the typical costs of providing quality child care in a geographic region, based on planned operating spaces • "Top-up allocation" supports eligible centres/agencies with cost structures that exceed benchmark allocations, and eligible centres/agencies adding new spaces/active homes (including new centres/agencies). • CMSMs/DSSABs can adjust Program Cost Allocations during the calendar year (for example, due to in-year operating space changes or one-time amounts for emergency repairs)	**ACTUAL PROGRAM COSTS** *Reported by licensee and a subset verified by third party and CMSM/DSSAB* • Actual amount of eligible costs incurred for an eligible centre/agency to provide child care reflected in base fees during the calendar year. • Cannot exceed the Program Cost Allocation, including any in-year adjustments.
BASE FEE REVENUE OFFSET Collected from families and available to apply towards program costs or profit/surplus	**EXPECTED BASE FEE REVENUE OFFSET** • Amount of base fee revenue estimated to be earned in the calendar year based on planned operating spaces. • Adjusted by an allowed vacancy rate when it offsets the Program Costs Allocation (for example, recognizing turnover).	**ACTUAL BASE FEE REVENUE OFFSET** • The amount of base fee revenue earned from families and fee subsidy revenue for eligible children in the calendar year. • Cannot be lower than the Expected Base Fee Revenue Offset, which is adjusted by the allowed vacancy rate.
AMOUNT IN LIEU OF PROFIT/SURPLUS To recognize the risk of operating a business or to reinvest in child care, while safe-guarding public funds	**ALLOCATION IN LIEU OF PROFIT/SURPLUS** *Function of the Program Cost Allocation plus a flat amount* • Provided with and based on the Program Cost Allocation.	**ACTUAL AMOUNT IN LIEU OF PROFIT/SURPLUS** *Function of benchmark allocation & Actual Program Costs plus flat amount* • Final amount of funding provided in lieu of profit/surplus, based on Actual Program Costs.
COST-BASED FUNDING To enable CWELCC-enrolled licensees to meet the objectives of the CWELCC program, including reducing parent fees at eligible centres/agencies	**COST-BASED FUNDING ALLOCATION** *Program Cost Allocation plus Allocation in Lieu of Profit/Surplus minus Expected Base Fee Revenue Offset* • Total amount of notional funding provided to support the costs of providing child care at an eligible centre/agency throughout the calendar year.	**ACTUAL COST-BASED FUNDING** *Actual Program Costs plus Actual Amount in Lieu of Profit/Surplus minus Actual Base Fee Revenue Offset* • Final amount of funding available for an eligible centre/agency for a calendar year, based on Actual Program Costs. • CMSMs/DSSABs must recover any overpayments promptly and return to the Ministry (this means, no carry-over provisions). • CMSMs/DSSABs may offset overpayments from subsequent payments if there is an ongoing funding arrangement with the licensee.

Table 1. *The cost-based funding approach is structured around four key concepts, which are calculated and disbursed as notional amounts before crystalizing to final ("actual") amounts (that is, amounts retained by the licensee) after all eligible costs have been incurred, at the end of the calendar year.*

Process Cycle for CMSMs/DSSABs

Before the Calendar Year	During the Calendar Year	After the Calendar Year
• Receive licensees' operational plans *(and legacy data - 2025 only)* • Calculate Cost-Based Funding Allocations *(and legacy top-ups – 2025 only)* • Update service agreements *(as needed)* • Schedule regular (advance) payments to licensees • Select eligible centres/ agencies for cost reviews	• Pay licensees as per schedule • Process any in-year funding change requests (based on changes to operating plans or emergency funding) • Perform cost reviews	• Collect licensees' annual attestations and standardized financial reports • Select sample for Direct Engagements to Report on Compliance • Review standardized financial reports, as appropriate, to identify any further risks of cost ineligibility • Calculate and recover overpayments

Table 2. *The process of delivering cost-based funding for a particular calendar year involves steps in advance of, during, and after the calendar year.*

PART 1: COST-BASED FUNDING ALLOCATION

Overview

An eligible centre's/agency's CWELCC **Cost-Based Funding Allocation** is an amount of funding provided to support the costs of providing child care throughout the year. The Cost-Based Funding Allocation is calculated as (**1.1)** a **Program Cost Allocation**; *plus* **(1.2)** an **Allocation In Lieu of Profit/Surplus**; *minus* **(1.3)** the centre's/agency's **Expected Base Fee Revenue Offset**.

At a high level,

1.1 The **Program Cost Allocation** calculation involves two main components:

(a) **Benchmark Allocation**: Calculate the cost-based benchmark allocation for the eligible centre/agency. The benchmark allocation is adjusted for regional differences by applying the appropriate geographic adjustment factor.

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).

(b) **Plus, Top-Up Allocation:** Calculate and add to the benchmark allocation calculated in 1.1(a), any applicable *top-up allocation* for the centre/agency, which may include one or more of a:

i. **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. (Only applies to 2025 and becomes part of the rolling top-up after 2025.)

ii. **Growth top-up** for new centres/agencies in the calendar year, or existing centres/agencies that expand **with** 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. For information on other sources of funding,

which may be available to support licensee growth (such as Start-up Grants), please see <<appropriate section of Guidelines (TBD)>>.

iii. **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 (Only applies to calendar years after 2025.)

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

1.2 The Allocation In Lieu of Profit/Surplus calculation involves three steps:

(a) **Base rate amount** of 4.25% applied to the sum of the benchmark allocation and top-up allocation.

(b) **Plus, a premium rate amount** of 3.5% applied only to the benchmark allocation.

(c) **Plus, a flat amount** of $6,000 for each calendar year for the eligible centre/agency.

1.3 Expected Base Fee Revenue Offset: Subtract, from the amount calculated by adding allocations from 1.1 and 1.2, the estimated revenue expected from base fees and fee subsidies for eligible children at the eligible centre/agency during the calendar year.

CMSMs/DSSABs 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 Program Costs. To avoid the recovery of significant overpayments at year-end, a licensee may agree to a lower Cost-Based Funding Allocation for an eligible centre/agency, which could create funding flexibility for CMSMs/DSSABs.

Information Required to Calculate Program Cost Allocations

Licensees must submit the following information to their CMSMs/DSSABs to support the calculation of Program Cost Allocations for each eligible centre/agency for the calendar year:

- Operating plan(s) for each eligible centre/agency for the calendar year, which may include, as applicable:
    - Planned number of operating spaces by age group;
    - Planned number of active homes;

- Planned number of active home seats for eligible children;
- 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.

- For legacy centres/agencies (for 2025 only), if requiring a legacy top-up:
  - Evidence of fixed costs for the calendar year (for example, a copy of a rent receipt or lease);
  - Operating budgets for 2025; and
  - 2023 audited financial statements and related financial reports (such as general ledgers), as needed to support the assessment of legacy costs.

To calculate Program Cost Allocations for eligible centres/agencies, CMSMs/DSSABs will input the following details applicable to the calendar year, each of which form elements of the calculations described in the next section.

For eligible centres:

A Program staffing benchmarks (Schedule A) for the calendar year

B The number of operating space-days for each eligible age group for the calendar year, calculated as the sum of the planned number of service days applicable to each operating space

For example, 10 infant operating spaces for 200 service days and 5 infant operating spaces for 100 service days would be (10 x 200) + (5 x 100) = 2,500 infant operating space-days

C The program staffing ancillary multiplier (Schedule A) for the calendar year

D The total number of service days for the centre during the calendar year

E Supervisor benchmark (Schedule A) for the calendar year

F The eligible child ratio, calculated as the number of operating space-days for eligible children during the year (each weighted by its respective program staff to child ratio as defined in O. Reg 137/15), divided by the total number of operating space-days (including for ineligible children) in the eligible centre during the calendar year (each weighted by its respective program staff to child ratio as defined in O. Reg 137/15). For the purpose of this calculation, family age group spaces are weighted by the program staff to child ratio applied to the toddler age group, as defined in O. Reg 137/15

For example, an eligible centre with 15 toddler spaces (eligible; weighted at a ratio of 1/5) for 261 days and 14 primary/junior school spaces (ineligible; weighted at a ratio of 1/15) for 187 days would have an eligible child ratio of [15 x 261 x (1/5)]/[(15 x 261 x (1/5)) + (14 x 187 x (1/15))] = 81.77%

G The supervisor ancillary multiplier (Schedule A) for the calendar year

H Accommodations benchmarks (Schedule A) for the calendar year

I The number of licensed spaces for each eligible age group

J Operations (fixed) benchmarks (Schedule A) for the calendar year

K The number of licensed space-days for each eligible age group for the calendar year, calculated as the sum of the number of service days applicable to each licensed space

For example, 10 infant spaces for 200 service days (per the parent handbook) and 5 infant spaces for 100 service days (per the parent handbook) would be (10 x 200) + (5 x 100) = 2,500 infant licensed space-days

L Operations (variable) benchmarks (Schedule A) for the calendar year

M The program staff to child ratio for each eligible age group, as defined in O. Reg 137/15 (for example 3/10 for infants), except for family age groups, which use the toddler ratio (1/5) for simplicity

N The typical number of hours of service provided by the centre for each eligible age group for the calendar year

For eligible agencies:

O Home child care provider compensation benchmark (Schedule A) for the calendar year

P The number of active home-days for the calendar year, calculated as the sum of the number of planned service days applicable to each active home in the eligible agency

For example, 5 active homes for 261 service days and 1 active home for 365 service days would be (5 x 261) + (1 x 365) = 1,670 active home-days

Q Home visitor compensation benchmark (Schedule A) for the calendar year

R Home visitor ancillary multiplier (Schedule A) for the calendar year

S Home child care agency operations (variable) benchmark (Schedule A) for the calendar year

T Home child care agency operations (fixed) benchmark (Schedule A) for the calendar year

For eligible centres and agencies:

U The whole number of months (partial or full) in the calendar year in which the eligible centre/agency participates in CWELCC, divided by 12

In-year Adjustments

Go-Forward Adjustments to Cost-Based Funding Allocations

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 a licensee to reduce their Program 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; or
- The licensee stops participating in CWELCC in respect of that eligible centre/agency.

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

Using Funding Flexibility to Cover One-Time, Unexpected Costs

CMSMs/DSSABs may use any funding flexibility (such as where a licensee has agreed to a lower Cost-Based Funding Allocation) to support eligible centres/agencies that incur non-discretionary and unexpected eligible costs above their Program Cost Allocations (such as emergency capital repairs to minor assets). In cases where such non-discretionary and

unexpected costs are not eligible (such as major capital repairs), the costs could be deemed eligible and reported separately by the CMSM/DSSAB. For greater certainty, such deemed eligible costs would not affect the eligible centre's/agency's Actual Cost-Based Funding. CMSMs/DSSABs must implement a fair and transparent process, such as an application, to allocate any such funding. In considering such support, CMSMs/DSSABs may consider, for example, other revenue sources available to the eligible centre/agency such as reserves and non-base fee revenue, noting that financing costs may be eligible costs.

1.1 Program Cost Allocation

Program Cost Allocations are calculated by eligible centre/agency.

1.1(a) Benchmark Allocation (adjusted for geographic differences)

STEP 1: Calculate each component of an eligible (A) centre's or (B) agency's unadjusted 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 described in Table 3, below.

Benchmark Component	Eligible costs represented (see Part 3)
A. Eligible Centres	
A.1 Program Staffing	Pay and benefits for program staff in eligible centres (that is, counting towards ratio requirements in O. Reg 137/15 under the *Child Care and Early Years Act, 2014*)
A.2 Supervisor	Pay and benefits of supervisors working in eligible centres
A.3 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
A.4 Operations	All other operating costs of eligible centres, including pay & benefits of non-program staff (such as cooks), food, overhead costs (such as centralized staff, licensing or professional fees), program equipment and supplies, office expenses, utilities, cleaning, insurance, and other (such as training, advertising, transportation, IT equipment)
B. Eligible Agencies	
B.1 Provider Compensation	Compensation for home child care providers.
B.2 Visitor Compensation	Compensation for home child care visitors.
B.3 Agency Operations (Variable); and B.4 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).

Table 3. *Benchmark allocations are calculated using standardized cost metrics, designed to represent typical costs incurred by licensed child care centres and home child care agencies in Ontario.*

To calculate the relevant components of an eligible centre's/agency's unadjusted benchmark allocation, CMSMs/DSSABs must apply benchmarks for the calendar year, as set out in Schedule A, across licence-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)
- Licence type (centre-based or home child care)
- Licence setting (community or publicly funded school)

Benchmarks for the calendar year, as set out in Schedule A, 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 reviews and publishes benchmarked amounts at least annually in advance of the relevant calendar year.

For technical details describing how the ministry determines benchmarks set out in Schedule A for the calendar year, refer to the <<Cost-based funding approach Technical Paper (TBD)>>

The sum of all amounts calculated in this step establish the unadjusted benchmark allocation for the eligible centre/agency. The benchmark allocation is the unadjusted benchmark allocation multiplied by the geographic adjustment factor described in step 2 of this section.

Representative case examples for the calendar year can be found in Schedule D.

A.1 Child Care Centres: Program Staffing Component

To calculate an eligible centre's program staffing component, sum the products of the following calculation for each age group, for which the centre has operating spaces (that is, infant, toddler, preschool, kindergarten, or family age group):

A x B x C

where,

"A" is the program staffing benchmark for the appliable age group (infant, toddler, preschool, kindergarten, or family age group) for the calendar year (Schedule A);

"B" is the number of operating space-days in the eligible centre, calculated as the sum of the planned number of service days applicable to each operating space, for the same age group; and,

"C" is the program staffing ancillary multiplier for the calendar year (Schedule A), reflecting typical ancillary costs (such as supplementary benefits or supply coverage for vacation days and sick days).

For example, using *illustrative* amounts for explanatory purposes, the program staffing component for an eligible centre with 100 operating space-days for infants, toddlers and preschoolers during the calendar year, would be calculated as follows:

Illustrative Program Staffing Component Calculation:	**A**	**x**	**B**	**x**	**C**	**=**	**Total**	
Infant	$5	x	100	x	1.1	=	$550	
Toddler	$4	x	100	x	1.1	=	$440	+
Preschool	$3	x	100	x	1.1	=	$330	+
Kindergarten	$2	x	-	x	1.1	=	$0	+
Family age group	$4	x	-	x	1.1	=	$0	+
Program staffing component							**$1,320**	**=**

Illustrative amounts above are not representative of program staffing benchmarks or eligible centre characteristics. See Schedule A for benchmarks and the ancillary multiplier for the calendar year, which are to be applied to licence-specific characteristics when calculating an eligible centre's benchmark allocation.

Program staffing benchmarks incorporate licensee obligations related to workforce compensation, including mandatory employer contributions and premiums (such as Canada Pension Plan, Employment Insurance, Workplace Safety Insurance Board) and Employer Health Tax, as well as provincial workforce policy as outlined in the <<appropriate section of Guidelines (TBD)>>. Benchmarks are not intended to limit licensee discretion with respect to program staff wages.

A.2 Child Care Centres: Supervisor Component

An eligible centre's supervisor component is calculated per eligible centre, by applying the supervisor benchmark and ancillary multiplier for the calendar year (Schedule A) to the number of service days for the centre, adjusted for the proportion of operating spaces designated for eligible children at the centre during the calendar year, as follows:

D x E x F x G

where,

"D" is the total number of service days for the eligible centre during the calendar year;

"E" is the supervisor benchmark for the calendar year (Schedule A);

"F" is the eligible child ratio for the centre, calculated as the number of operating space-days for eligible children during the year (each weighted by its respective program staff to child ratio as defined in O. Reg 137/15), divided by the total number of operating space-days (including for ineligible children) in the eligible centre during the calendar year (each weighted by its respective program staff to child ratio as defined in O. Reg 137/15). For the purpose of this calculation, family age group spaces are weighted by the program staff to child ratio applied to the toddler age group, as defined in O. Reg 137/15; and

"G" is the supervisor ancillary multiplier for the calendar year (Schedule A), reflecting typical ancillary costs (such as supplementary benefits or supply coverage for vacation days and sick days).

For example, using *illustrative* amounts for explanatory purposes, an eligible centre with 15 toddler spaces (eligible; weighted at a ratio of 1/5) and 30 primary/junior school spaces (ineligible; weighted at a ratio of 1/15) – that is, an eligible child ratio of [15 x (1/5)]/[(15 x (1/5)) + (30 x (1/15))] = 3/5, or 60% – for 100 service days during the calendar year, would have their supervisor component calculated as follows:

Illustrative Supervisor Component Calculation:	**D**	x	**E**	x	**F**	x	**G**	=	**Total (per centre)**
Supervisor component:	100	x	$10	x	60%	x	1.1	=	**$660**

Illustrative amounts above are not representative of supervisor benchmarks. See Schedule A for benchmarks and the ancillary multiplier for the calendar year, which are to be applied to licence-specific characteristics when calculating an eligible centre's benchmark allocation.

Supervisor benchmarks incorporate employer obligations with respect to workforce compensation such as mandatory employer contributions and premiums (such as Canada Pension Plan, Employment Insurance, Workplace Safety Insurance Board) and Employer Health Tax, as well as provincial workforce policy as outlined in the <<appropriate section of Guidelines (TBD)>>. Benchmarks are not intended to limit employer discretion with respect to supervisor wages.

A.3 Child Care Centres: Accommodations Component

To calculate an eligible centre's accommodations component, sum the products of the following calculation for each age group, for which the eligible centre has licensed spaces (that is, infant, toddler, preschool, kindergarten, or family age group):

H x I x U

where,

"H" is the accommodations benchmark for the age group (infant, toddler, preschool, kindergarten, or family age group) and setting (community setting or publicly funded school setting) applicable to the eligible centre for the calendar year (Schedule A)

"I" is the number of licensed spaces in the eligible centre for the same age group; and

"U" is the whole number of months (partial or full) in the calendar year in which the eligible centre/agency participates in CWELCC, divided by 12.

For example, using *illustrative* amounts for explanatory purposes, the accommodations component for an existing eligible centre in a community setting with licensed spaces for 15 infants, 15 toddlers and 15 preschoolers would be calculated as follows:

Illustrative Accommodations Component Calculation:	**H**	x	**I**	x	**U**	=	**Total**	
Infant	$2,500	x	15	x	1	=	$37,500	
Toddler	$2,000	x	15	x	1	=	$30,000	+
Preschool	$1,800	x	15	x	1	=	$27,000	+
Kindergarten	$1,500	x	-	x	1	=	$0	+
Family age group	$3,000	x	-	x	-	=	$0	+
Accommodations component							**$94,500**	=

Illustrative amounts above are not representative of accommodations benchmarks. See Schedule A for benchmarks for the calendar year. The appropriate accommodations benchmark table is selected based on whether the eligible centre is located in a publicly funded school setting or a community setting.

A.4 Child Care Centres: Operations Component

The operations component of an eligible centre's benchmark allocation contains two parts: a fixed component and a variable component. The **operations component (fixed)** represents typical fixed operational costs, such as utilities and insurance. The operations component (variable) represents typical variable operating costs, such as pay and benefits for non-program staff, food, and program equipment and supplies.

To calculate an eligible centre's operations component (fixed), sum the products of the following calculation for each age group, for which the eligible centre has licensed spaces (that is, infant, toddler, preschool, kindergarten, or family age group):

J x K

where,

"J" is the operations (fixed) benchmark for the calendar year (Schedule A), by applicable centre setting (community setting or publicly funded school setting) and age group; and

"K" is the number of licensed space-days in the eligible centre, calculated as the sum of the number of service days applicable to each licensed space, for the same age group.

For example, using *illustrative* amounts for explanatory purposes, the operations component (fixed) for an eligible centre with 150 licensed space-days for infants, toddlers and preschoolers during the calendar year, would be calculated as:

Illustrative Operations Component (fixed) Calculation *(i)*	**J**	x	**K**	=	**Total**	
Infant	$5	x	150	=	$750	
Toddler	$5	x	150	=	$750	+
Preschool	$5	x	150	=	$750	+
Kindergarten	$3	x	-	=	$0	+
Family age group	$5	x	-	=	$0	+
Operations component (fixed)					**$2,250**	**=**

Illustrative amounts above are not representative of operations benchmarks. See Schedule A for benchmarks for the calendar year. The appropriate operations benchmark table is selected based on whether the eligible centre is located in a publicly funded school setting or a community setting.

To calculate an eligible centre's **operations component (variable)**, sum the products of the following calculation for each age group, for which the eligible centre has operating spaces (that is, infant, toddler, preschool, kindergarten, or family age group):

L x B

where,

"L" is the operations (variable) benchmark for the calendar year (Schedule A), by applicable centre setting (community setting or publicly funded school setting) and age group; and

"B" is the number of operating space-days in the eligible centre, calculated as the sum of the planned number of service days applicable to each operating space, for the same age group.

For example, using *illustrative* amounts for explanatory purposes, the operations component (variable) for the same eligible centre, with 100 operating space-days for infants, toddlers and preschoolers during the calendar year, would be calculated as:

Illustrative Operations Component (variable) Calculation *(ii)*	**L**	x	**B**	=	**Total**	
Infant	$2	x	100	=	$200	
Toddler	$2	x	100	=	$200	+
Preschool	$2	x	100	=	$200	+
Kindergarten	$3	x	-	=	$0	+
Family age group	$2	x	-	=	$0	+
Operations component (variable)					**$600**	**=**

Illustrative amounts above are not representative of operations benchmarks. See Schedule A for benchmarks for the calendar year. The appropriate operations benchmark table is selected based on whether the eligible centre is located in a publicly funded school setting or a community setting.

An eligible centre's **total operations component** is calculated as the sum of the ***fixed*** operations component and the ***variable*** operations component.

Using the *illustrative* examples for calculating the *fixed* and *variable* operations components, above, the eligible centre's operations component would be calculated as:

Illustrative Operations Component (total) Calculation *(iii)*

Fixed operations component	$2,250	
Variable operations component	$600	**+**
Operations Component *Total*	**$2,850**	**=**

B.1 Home Child Care Agencies: Provider Compensation Component

Calculate an eligible agency's provider compensation component as follows:

O x P

where,

"O" is the home child care provider compensation benchmark for home child care agencies for the calendar year (Schedule A); and,

"P" is the number of active home-days for the eligible agency, calculated as the sum of the number of planned service days applicable to each active home in the agency.

The home child care provider compensation benchmark is intended to cover costs associated with providing child care for eligible children, not to provide a compensation "floor" or "ceiling" for home child care providers.

For example, using *illustrative* amounts for explanatory purposes, the provider compensation component for an eligible agency with 5 active homes, all of which are planned to be open for 261 days per year, would be calculated as:

Illustrative Provider Compensation Calculation:	**O**	x	**P**	=	**Total**
Provider Compensation	$15	x	[5 x 261 =] 1,305	=	**$19,575**

Illustrative amounts above are not representative of provider compensation benchmarks. See Schedule A for benchmarks for the calendar year.

B.2 Home Child Care Agencies: Visitor Compensation Component

Calculate an eligible agency's home visitor component as follows:

Q x P x R

where

"Q" is the home visitor compensation benchmark for home child care agencies for the calendar year (Schedule A);

"P" is the number of active home-days for the eligible agency, calculated as the sum of the number of service days applicable to each active home in the agency; and,

"R" is the home visitor ancillary multiplier for the calendar year (Schedule A), reflecting typical ancillary costs (such as coverage for supplementary benefits).

For example, using *illustrative* amounts for explanatory purposes, the visitor compensation component for an eligible agency with 5 active homes, all of which are open for 261 days for the calendar year, would be calculated as:

Illustrative Visitor Compensation Calculation:	**Q**	x	**P**	x	**R**	=	**Total**
Visitor Compensation:	$15	x	[5 x 261 =] 1,305	x	1.1	=	**$21,532.50**

Illustrative amounts above are not representative of visitor compensation benchmarks. See Schedule A for benchmarks and the ancillary multiplier for the calendar year.

Home visitor compensation benchmarks incorporate employer obligations with respect to workforce compensation, such as mandatory employer contributions and premiums (such as Canada Pension Plan, Employment Insurance, Workplace Safety Insurance Board) and Employer Health Tax, as well as provincial workforce policy, as outlined in <<appropriate section of Guidelines (TBD)>>.

Benchmarks are not intended to limit employer discretion with respect to home visitor wages.

B.3 Home Child Care Agencies: Agency Operations (Variable) Component

Calculate an eligible agency's operations (variable) component as follows:

S x P

where,

"S" is the home child care agency operations (variable) benchmark for the calendar year (Schedule A); and

"P" is the number of active home-days for the eligible agency, calculated as the sum of the number of service days applicable to each active home in the agency.

B.4 Home Child Care Agencies: Agency Operations (Fixed) Component

Calculate an eligible agency's operations (fixed) component as follows:

T x U

where,

"T" is the home child care agency operations (fixed) benchmark for the calendar year (Schedule A); and

"U" is the whole number of months (partial or full) in the calendar year in which the eligible centre/agency participates in CWELCC, divided by 12.

For example, using *illustrative* amounts for explanatory purposes, the operations component for an eligible agency with 5 active homes, all of which are open for 261 days for the calendar year, would be calculated as:

Illustrative Agency Operations Calculation:	**S**	x	**P**	+	**T**	x	**U**	=	**Total**
Agency Operations:	$15	x	[5 x 261 =] 1,305	+	1,000	x	1	=	**$20,575**

Illustrative amounts above are not representative of agency operations benchmarks. See Schedule A for benchmarks for the calendar year.

STEP 2: Sum components and apply geographic adjustment factor ("GAF")

Cost structures may vary across eligible centres/agencies for many reasons, including geographic location, reflecting differing local rents, labour markets, electricity costs, and food prices, among others. To adjust for such differences, unadjusted benchmark allocations have a "geographic adjustment factor" (GAF) applied to recognize the impact of (broad) geography on costs.

Calculate the benchmark allocation by multiplying the unadjusted benchmark allocations determined by step 1 of this section (for clarity, the sum of all that apply) by the GAF for the calendar year for the economic region in which the CMSM/DSSAB is included (Schedule B).

Home child care agencies with active homes in multiple economic regions

Where an eligible agency has active homes in jurisdictions of multiple CMSMs/DSSABs, the CMSM/DSSAB overseeing the eligible agency (that is, the CMSM/DSSAB jurisdiction associated with the head office in the Child Care Licensing System (or "**overseeing CMSM/DSSAB**")) should refer to Schedule B to determine whether different GAFs apply to those CMSMs/DSSABs.

If different GAFs apply, apply a weighted GAF to components B.1 through B.3 as follows:

(1) Sum the product of each distinct GAF and the number of active home-days ("P" in the calculations above) for that distinct GAF

(2) Divide the result of (1) by the total number of active home-days across all homes ("P")

For B.4, apply the GAF that applies to the overseeing CMSM/DSSAB.

For clarity, where an eligible agency has active homes in jurisdictions of multiple CMSMs/DSSABs, to which the same GAF applies (that is, no distinct GAFs), the weighting calculation described above yields the same result as simply using that GAF.

1.1(b): Add Top-Up Allocation (if applicable)

As benchmark allocations are based on typical costs incurred by licensed child care centres and home child care agencies in Ontario, adjusted for regional differences, an eligible centre's/agency's individual cost structure may not align with benchmark allocations. To account for potential differences in cost structures, there are three types of top-up, some combination of which may apply in a particular calendar year:

- A **legacy top-up** for legacy centres/agencies 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 necessarily and significantly change their operating models due to the implementation of cost-based funding. (Only applies to 2025 and becomes part of the rolling top-up after 2025.)

- A **growth top-up** for new centres/agencies, or existing centres/agencies that expand with 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.

- A **rolling top-up** for existing centres/agencies 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. (Only applies to calendar years after 2025.)

1.1(b)(i) Legacy Top-Up (applies only to 2025 and only to legacy centres/agencies)

STEP 1: Calculate the legacy centre's/agency's legacy costs for existing licensed spaces or active homes (if applicable)

This step only applies to 2025 and only to legacy centres/agencies.

Legacy costs are costs that are consistent with legacy centres'/agencies' 2023 cost structures, adjusted for eligibility, cost escalation, and changes to operating practices and fixed costs.

STEP 1a: Calculate 2023 Adjusted Costs

Using audited 2023 Statement of Operations and related supporting materials where needed (for example, a general ledger), calculate total eligible costs for 2023 (excluding all ineligible costs). This should be done at the licence level, using a reasonable split of costs if the 2023 Statement of Operations is aggregated across multiple licences or if it includes services not included in the base fee.

Where a 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, with the resulting legacy costs for that month multiplied by 12. In the absence of such a month, the legacy centre/agency would be treated as a new centre/agency for the purposes of calculating the Program Cost Allocation.

Where a legacy centre/agency does not have an audited 2023 Statement of Operations (for example, because the centre/agency first began operations in early 2024), a CMSM/DSSAB-approved operating budget for 2024 may be substituted for such an audited statement for the purposes of this calculation, provided such approval was given prior to August 14, 2024. In such a case, the CMSM/DSSAB must apply a **cost-escalation factor of 1.02** (in place of 1.0465) in step 1b, below. In the absence of such an approved operating budget, the legacy centre/agency would be treated as a new centre/agency for the purposes of calculating the Program Cost Allocation.

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. For example, a reasonable methodology could employ the following to determine eligible shares of costs by cost type, where all operating spaces or active homes operate for the same number of service days (otherwise, the below could also adjust for such differences):

- For program staffing and operating costs, determine an eligible share by weighting operating spaces by age group using the program 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;

  For example, using illustrative amounts for explanatory purposes, 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 program staffing and operating costs of:
  [15 x (1/5) x 10.5]/[(15 x (1/5) x 10.5) + (30 x (1/15) x 4.5)] = 31.5/40.5 = 78%

- For supervisor costs, determine an eligible share by weighting operating spaces by age group using the program staff-to-child ratio for each age group as defined in O. Reg 137/15, including only eligible age groups in the numerator;

  For example, the same legacy centre with 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)]/[(15 x (1/5)) + (30 x (1/15))] = 3/5 = 60%

- 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;

  For example, the same legacy centre with 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)]/[(15 x (1/15)) + (30 x (1/30))] = 1/2 = 50%

- For legacy agencies, determine a ratio by dividing the number of eligible children enrolled by the total children enrolled.

Calculate **2023 adjusted costs** by ***subtracting*** the following from the total eligible costs for 2023:

- 2023 non-recurring costs, such as major repairs;

- 2023 fixed costs, specifically: contracted accommodation costs (such as pursuant to a rental agreement), insurance, and property tax (to minimize the impact of fixed cost variances that may not follow cost escalation assumptions);

- funding attributable to 2023 CWELCC workforce compensation funding (such as to cover bringing wages up to the applicable wage floor or $1/hour annual increases, as required), the wage enhancement grant, or home child care enhancement grant (to minimize the impact of policy changes that may not follow cost escalation assumptions); and

- 2023 salary and benefits for one controlling owner employed by the licensee.

STEP 1b: Multiply 2023 Adjusted Costs by Scaling Factors

To recognize that costs may have changed between 2023 and 2025, multiply 2023 adjusted costs (per step 1a) by the cost escalation factor (1) and the appropriate operating scaling factor (2):

(1) **Cost escalation factor***:* 1.0465 (cumulative Ontario CPI for 2024 and 2025 per the 2024 Ontario Budget) to adjust for higher prices;

(2) **Operating scaling factor (for legacy centres):** for each eligible age group, calculate the following:

B x M x N

where,

"B" is the number of operating space-days in the legacy centre, calculated as the sum of the planned number of service days applicable to each operating space, for the age group for the calendar year;

"M" is the program staff-to-child ratio for the same age group, as defined in O. Reg 137/15 (for example 3/10 for infants), except for family age groups, which use the toddler ratio (1/5) for simplicity; and

"N" is the typical number of hours of service provided by the legacy centre for the same age group for the calendar year.

The operating factor is the sum of the result of the formula across all eligible age groups for 2025 (planned) divided by the sum of all eligible age groups for 2023 (actual).

-OR-

Operating scaling factor (for legacy agencies): divide the total number of active home-days for the legacy agency (calculated as the sum of service days across all active homes in the agency, or "P" in the calculations in section 1.1(a)B.1 through B.3, above) for 2025 (planned) by the total number of active home-days for the agency for 2023 (actual).

STEP 1c: Add 2025 "workforce funding"

To the result of step 1b, add the funding attributable to 2025 CWELCC workforce compensation funding (such as to cover bringing wages up to the applicable wage floor or $1/hour annual increases, as required), the wage enhancement grant, and the home child care enhancement grant <<see appropriate section of Guideline (TBD)>>.

STEP 1d: Add 2025 Fixed Costs

To the result of step 1c, add the 2025 equivalent of fixed costs removed from 2023 adjusted costs in step 1a (specifically: contracted accommodation costs (such as pursuant to a rental agreement), insurance, and property tax), which should be consistent with auditable documentation.

STEP 1e: Add 2025 Controlling Owner's Compensation for Labour

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

Recognizing this exclusion, to the result of step 1d, add the minimum of:

- The 2023 salary and benefits for the one controlling owner employed by the licensee subtracted in step 1a, multiplied by the cost escalation factor of 1.0465 as described in step 1b; and
- $465, applicable to only one legacy centre/agency per licensee, multiplied by the number of service days in the calendar year for that centre/agency.

Controlling owner's compensation for labour can only be claimed once per licensee, including licensees with more than one eligible centre/agency or licensees with more than one controlling owner.

The result of step 1e are the legacy costs for the eligible centre/agency as required for step 2.

STEP 2: Calculate the legacy centre's/agency's legacy top-up for existing licensed spaces or active homes (if applicable)

This step only applies to 2025 and only to legacy centres/agencies.

Calculate the legacy top-up by subtracting the benchmark allocation for the legacy centre/agency (as calculated in section 1.1(a)) from the centre's/agency's legacy costs as determined in step 1 of this section.

For clarity, the sum of the benchmark allocation and the legacy top-up would provide a sufficient Program Cost Allocation to the legacy centre/agency to cover its legacy costs as defined by step 1.

1.1(b)(ii) Growth Top-up (for existing centres/agencies that expand or for new centres/agencies)

STEP 1: **Calculate growth top-up (if applicable) for new licensed spaces in existing centres or new active homes associated with existing agencies**

This step only applies to existing centres/agencies that expand with new licensed spaces/active homes in the calendar year.

Calculate the benchmark allocation as would be determined by the new spaces/active homes only (per section 1.1(a)) with the following ***exceptions*** for the first calendar year in which the new licensed spaces/active homes are created:

- In the calculation of the *child care centres: supervisor component* (1.1(a)A.2), the supervisor benchmark ("E" in the calculation) for the calendar year is deemed to be zero.
- In the calculation of the *child care centres: accommodation component* (1.1(a)A.3), multiply the result by the whole number of months (partial or full) in the calendar year in which the new spaces will be licensed, divided by 12 (equivalent to applying "U" in the calculation to the new spaces).
- In the calculation of the *home child care agencies: operations (fixed) component* (1.1(a)B.4), the home child care agency operations benchmark (fixed) ("T" in the calculation) for the calendar year is deemed to be zero.

Calculate the growth top-up for the existing centre/agency by multiplying the resulting benchmark allocation for the new spaces/active homes (adjusted for exceptions) by the CMSM/DSSAB-specific growth multiplier for the calendar year (Schedule C).

Add the resulting benchmark allocation for the new spaces/active homes (adjusted for exceptions) to the existing benchmark allocation (based on existing spaces).

STEP 2: **Calculate new centre's/agency's growth top-up (if applicable)**

This step only applies to new centres/agencies.

Calculate the benchmark allocation (per section 1.1(a)).

Calculate the growth top-up for the new centre/agency by multiplying the resulting benchmark allocation for the new spaces/active homes by the CMSM/DSSAB-specific growth multiplier for the calendar year (Schedule C).

For new agencies, the growth multiplier for the calendar year for the CMSM/DSSAB in which a new active home is located should be applied, except for the agency's operations (fixed) component, for which the growth multiplier for the calendar year for the overseeing CMSM/DSSAB should be applied.

1.1(b)(iii) Calculate the existing centre/agency's rolling top-up (if applicable)

This step only applies to calendar years after 2025 and only to existing centres/agencies who received a top-up in the previous calendar year (either legacy top-up, growth top-up, rolling top-up, or some combination).

Calculate the rolling top-up ratio by dividing:

(1) *If before the previous calendar year's actual eligible costs are known:* the sum of all top-ups in the Program Cost Allocation for the previous calendar year

-OR-

Once the previous calendar year's actual eligible costs are known: actual eligible costs for the previous calendar year minus the total benchmark allocation received for the previous calendar year, or zero, whichever is greater

by

(2) the total benchmark allocation received for the previous calendar year (including any adjustments made).

Calculate the rolling top-up by multiplying the benchmark allocation (per section 1.1(a)) by the rolling top-up ratio.

1.2 Allocation in Lieu of Profit/Surplus

In addition to the cost-based Program Cost Allocation outlined above, CMSMs/DSSABs 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 licence.

1.2 (a) Base rate amount

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

1.2 (b) Plus, a premium rate amount

Multiply the premium rate of 3.5% by the benchmark allocation (per section 1.1(a)) for the eligible centre/agency.

1.2 (c) Plus, a 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.

For example, using notional amounts for illustrative purposes, the Allocation in Lieu of Profit/Surplus for an eligible centre with a benchmark allocation of $300,000 and a legacy top-up of $100,000 would be calculated as the sum of:

(1) **4.25%** x ($300,000 + $100,000) = $17,000

(2) **3.5%** x $300,000 = $10,500

(3) **$6,000**

or $33,500 (equivalent to 8.375% of the sum of their benchmark allocation and legacy top-up).

If in this notional example, the new centre/agency joined CWELCC on April 15 of the calendar year, the flat amount would be calculated as: $6,000 x (9/12) = $4,500.

Like the Program Cost Allocation, this allocation is meant as an in-year estimate of the Actual Amount in Lieu of Profit/Surplus, until Actual Program Costs are determined at reconciliation (see Part 2). Upon reconciliation, the base rate of 4.25% would be applied to Actual Program Costs and the premium rate of 3.5% would be applied to Actual Program Costs *up to the benchmark allocation* (as described in section 1.1(a)).

1.3 Expected Base Fee Revenue Offset

An eligible centre's/agency's Program 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).

1.3 (a) 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. In aggregate, to calculate the estimated base fee revenue, sum across all distinct daily base fees that apply to eligible children, the 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. For certainty, expected registration fees or other mandatory fees should also be included in Estimated Base Fee Revenue.

1.3 (b) 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. In aggregate, to calculate the estimated base fee revenue, sum across all distinct daily base fees that apply to eligible children, the 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. For certainty, expected registration fees or other mandatory fees should also be included in Estimated Base Fee Revenue.

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

CMSMs/DSSABs must ensure that the inputs and assumptions, if any, used for the calculation of the Program Cost Allocation (for example, total number of operating spaces, the number of service days, and total number of active homes) are consistent with those used for the base fee revenue calculations in 1.3(a) and 1.3(b). CMSMs/DSSABs must ensure all base fee revenue as described in the parent handbook, such as one-time mandatory fees, are included.

To account for vacancies (for example, due to child turnover or room transition), multiply the estimated base fee revenue 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.

CMSMs/DSSABs and licensees should work together to minimize vacancy rates (for example, work across eligible centres/agencies to match vacancies in one eligible centre/agency with a waitlist in another).

Home Child Care Agencies with Active Homes in Multiple Jurisdictions

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

In turn, the overseeing CMSM/DSSAB must allocate funding to eligible agencies, as described in this guideline, to cover all such active homes, including those within "secondary" CMSM/DSSAB jurisdictions as of the specified date.

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

This approach minimizes administrative burden while ensuring CMSMs/DSSABs can continue to manage directed growth planning in their respective jurisdictions.

Funding provided by the secondary CMSM/DSSAB must include:

(a) the **benchmark allocation** components described in 1.1(a) B.1 through B.3, with the applicable GAF adjustment (as described in 1.1(a), Step 2), multiplied by 1.0775 to account for the corresponding Allocation in Lieu of Profit/Surplus,

plus

(b) **the growth top-up** (as described in 1.1(b)(ii) for new active homes only), multiplied by 1.035 to account for the corresponding Allocation in Lieu of Profit/Surplus,

minus

(c) the Expected Base Fee Revenue Offset applicable to active homes created in their respective jurisdiction after the specified date.

At the end of the calendar year, the secondary CMSM/DSSAB must inform the overseeing CMSM/DSSAB of the amount paid to the agency with respect to the active homes created in the secondary CMSM's/DSSAB's jurisdiction.

The overseeing CMSM/DSSAB is then responsible for calculating the Actual Cost-Based Funding for the eligible agency—including all active homes within or outside the CMSM's/DSSAB's jurisdiction, including new active homes—at the end of the calendar year (see Part 2, below).

When the ministry 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 CMSM/DSSAB.

For clarity, regardless of the funding responsibility, eligible children enrolled in active homes created in secondary CMSMs/DSSABs are counted towards the secondary CMSM's/DSSAB's growth targets, according to its Directed Growth Plan.

CMSM/DSSAB	Operational Responsibilities	Funding Responsibilities
Overseeing	• Carry out key responsibilities under this guideline for the eligible agency, such as calculating legacy top-up, reconciliation, and cost reviews	• Fund eligible agency for all active homes other than active homes created in secondary CMSMs/DSSABs after the specified date
Secondary	• Approve new homes within their jurisdiction, in alignment with their Directed Growth Plan • At the end of the calendar year, inform the overseeing CMSM/DSSAB of the amount paid to the agency with respect to the active homes created in the secondary jurisdiction to facilitate reconciliation	• Fund eligible agency for all active homes created within its jurisdiction after the specified date

Table 4. *To minimize administrative burden while ensuring CMSMs/DSSABs continue to manage Directed Growth planning in their respective jurisdictions, secondary CMSMs/DSSABs fund eligible agencies for homes created within the secondary jurisdiction after the specified date and report that funding to the overseeing CMSM/DSSAB.*

PART 2: ACTUAL COST-BASED FUNDING (Reconciliation)

CMSMs/DSSABs 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, CMSMs/DSSABs must evaluate eligible costs (see Part 3) 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:**

(1) The **Funding Provided** in respect of the eligible centre/agency is the total sum of all the licensee's receipts during the calendar year in respect of the Cost-Based Funding Allocation for that eligible centre/agency.

(2) The **Actual Cost-Based Funding** refers to the: (a) Actual Program Cost, plus (b) Actual Amount In Lieu of Profit/Surplus, minus (c) Actual Base Fee Revenue.

(a) The Actual Program Cost is calculated as the lesser of the total sum of all eligible costs incurred for the eligible centre/agency during the calendar year, and the Program Cost Allocation for the eligible centre/agency.

For clarity, the Actual Program Cost is a single amount (not considered line-by-line funding) that cannot be greater than the Program Cost Allocation.

The Actual Amount In Lieu of Profit/Surplus is:

i. Base rate amount of 4.25% applied to the Actual Program Cost;

ii. plus, a premium rate amount of 3.5% applied to the lesser of the Actual Program Cost and the benchmark allocation portion of the eligible centre/agency's Program Cost Allocation;

iii. plus, a flat amount of $6,000 for the calendar year provided to the eligible centre/agency as a prorated amount for the calendar year (as described in section 1.2).

(b) For clarity, the Actual Amount in Lieu of Profit/Surplus cannot be greater than the Allocation in Lieu of Profit/Surplus. That is because the Actual Amount in Lieu of

Profit/Surplus uses the Actual Program Cost (to calculate the base rate and the premium rate amounts), which cannot exceed the Program Cost Allocation.

(c) The Actual Base Fee Revenue Offset is the greater of the eligible centre/agency's base fee revenue related to eligible children earned by the eligible centre/agency during the calendar year (which includes the total sum of the parent fees and fee subsidy revenue), and the Expected Base Fee Revenue Offset for the eligible centre/agency (including any in-year adjustments). CMSMs/DSSABs could use their funding flexibility to allow the Actual Base Fee Revenue Offset to fall below the Expected Base Fee Revenue Offset for the eligible centre/agency if there were extenuating circumstances for a vacancy rate higher than 10% for 2025 or 5% for subsequent calendar years.

Reconciliation of Cost-Based Funding Allocations can be performed periodically throughout the calendar year. The purpose of these in-year reconciliations would be to identify overpayments for cash management purposes and to avoid the recovery of significant actual overpayments on determination of Actual Cost-Based Funding at year-end.

CMSMs/DSSABs that recover in-year overpayments may use such recoveries to increase their funding flexibility and reallocate to eligible centres/agencies as needed.

However, recovering an in-year overpayment must not reduce an eligible centre's/agency's potential maximum funding for the calendar year. That is, an eligible centre/agency, from whom a CMSM/DSSAB has recovered in-year overpayments, may be entitled to a return of those amounts up to their Actual Cost-Based Funding as determined at year-end. It is therefore recommended that CMSMs/DSSABs recovering in-year overpayments communicate early and clearly with affected licensees.

At the end of the year, CMSMs/DSSABs must return to the ministry any unallocated amounts and all overpayment recoveries from licensees.

PART 3: ACCOUNTABILITY FRAMEWORK

3.1 Applying the Principle-Based Definition of Eligible Costs

CMSMs/DSSABs 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, described in detail below, is designed to balance the objective of supporting licensee participation in the CWELCC program 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 CMSMs/DSSABs and licensees and supporting high-quality learning environments for the benefit of eligible children in the licensee's care.

The following sections provide further guidance on how to evaluate whether costs incurred by the licensee in the calendar year for the purpose of providing child care for eligible children in an eligible centre/agency in Ontario are:

- 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; and,
- Reasonable in quality and amount, having regard to all the relevant circumstances.

"Attributable" and "appropriate" determine whether a licensee'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

A licensee'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 program 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 licensee 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 when a second refrigerator is not needed (in which cases 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 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 licensee'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 (for example, step 1(a) under the calculation of legacy costs, above).

(6) **Financing Costs exceeding Canada Small Business Financing Program Rates**

Eligible financing costs must not exceed those stemming from interest rates in alignment with the Canada Small Business Financing Program 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 licensee 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.

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

3rd party mortgages - principal and interest	Eligible, when the mortgage is on facilities actively used to deliver child care included in the base fee. Ineligible, if the mortgage is on facilities not actively used to deliver child care in the base fee (for example, the facility is vacant), as it would not be necessary or economical or needed for health and safety. While CMSMs/DSSAB s must mitigate risks of funding vacant facilities, they may use discretion and allow short-term vacancies (for example, during start-up or regular closure periods).
Loans where the lender is a shareholder (including mortgages) - interest	Eligible, when loans are directly related to non-recurring eligible costs and a contractual obligation that establishes interest and repayment requirements exists. Due to the non-arms-length relationship with shareholders, licensees would have to demonstrate the interest rate is comparable to market rates and not artificially higher.

3.2 Process for Ensuring Cost Eligibility for CWELCC Funding

(1) Licensees should be made aware of eligibility criteria and understand that using CWELCC funding for ineligible costs may result in year-end recoveries. To minimize this risk, licensees should not incur ineligible costs. If in doubt, before incurring the cost, licensees may seek guidance from their respective CMSM/DSSAB related to cost eligibility. For clarity, 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.

(2) Per the requirement of <<appropriate section of Guidelines (TBD)>> to submit audited financial statements following the end of the calendar year, licensees 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 CMSMs/DSSABs.

(3) Licensees submit standardized financial reports <<template TBD>> 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, program staffing, accommodations).

(4) Per the Compliance Assurance section below, CMSMs/DSSABs 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.

- Licensees 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, CMSMs/DSSABs 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, the CMSM/DSSAB follows up with the licensee for more information relevant to their assessment of eligible costs (such as copies of receipts, quotes, details of circumstances).

(7) The CMSM/DSSAB reviews information provided by the licensee to assess the eligibility of costs claimed. In conducting that review, the CMSM/DSSAB could:

(a) consult with other CMSMs/DSSABs, as appropriate, to support consistency of administration;

(b) consider costs incurred by comparable eligible centres/agencies.

(8) Where the CMSM/DSSAB identifies an ineligible cost, the CMSM/DSSAB must:

(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 Program Costs; or,

ii. Where the cost is attributable and appropriate, but unreasonable, adjust the total cost, included in the Actual Program Costs, down to a reasonable amount (that is, remove the ineligible portion of the total cost).

(9) In case of disagreement, the CMSM/DSSAB and licensee must follow the dispute resolution process established by the CMSM/DSSAB, as required by <<appropriate section of Guidelines (TBD)>>.

Compliance Assurance: Direct Engagement to Report on Compliance

Until December 31, 2024, CMSMs/DSSABs were required to undertake annual compliance audits on a random samples of licensees in receipt of CWELCC funding to confirm that funding was used for its intended purpose.

Starting with the 2025 calendar year, as part of the reconciliation process after the end of each calendar year, CMSMs/DSSABs 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 to support the CMSM/DSSAB's verification that the offsetting base fee revenue and costs reported on the standardized financial report were eligible and in compliance with this guideline. It should 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 is 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 licensee's compliance with this guideline in all significant respects. The practitioner may indicate that the practitioner's report is intended solely for specific users and any intended restriction on the distribution or use of the report. Please refer to <<appropriate template (TBD)>> for an example of an independent practitioner's reasonable assurance report on compliance.

To support operational efficiency, CMSMs/DSSABs are responsible for the performance of the Direct Engagement to Report on Compliance for the selected eligible centre/agency and pay for it on their behalf. The cost of the Direct Engagement to Report on Compliance can be deemed by the CMSM/DSSAB to be an eligible cost incurred by the eligible centre/agency and attributed to that eligible centre/agency for the purposes of reporting to the ministry. The licensee does not need to know or report the cost as an eligible cost to the CMSM/DSSAB. A separate reporting line will be available for CMSMs/DSSABs to input this cost as a chargeback to the licensee's expenditure at year end to the ministry. For greater certainty, such costs should not affect Actual Cost-Based Funding for the selected eligible centre/agency.

3.3 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 is directing CMSMs/DSSABs 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, per the cost review selection criteria outlined below.

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

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 CMSM/DSSAB-specific growth multiplier for the calendar year (Schedule C) are subject to being selected for a cost review. 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 licensee 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, CMSMs/DSSABs must select and engage for a cost review:

(1) the top 10 per cent of all existing centres/agencies in descending order of top-up ratio, or

(2) the total number of existing centres/agencies subject to cost reviews,

whichever group is smaller.

Cost reviews must be completed by December 31 of the calendar year.

Cost Review Process

In collaboration with each existing centre/agency selected for a cost review, the CMSM/DSSAB should seek to identify potential cost reductions, such as:

- Any costs that are, in fact, ineligible, in which case the CMSM/DSSAB must 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 need to 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 CMSM/DSSAB and licensee, the CMSM/DSSAB 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 for each calendar year should be completed by December 31 of that calendar year, including the identification of a reasonable schedule to reduce eligible costs where applicable.

Cost Review Reporting

CMSM/DSSABs must report back to the Ministry, by March 31 of the next calendar year, the following information in a cost review template <<TBD>>, for each existing centre/agency reviewed:

- Licence number;

- Summary of findings, including rationale for continued high costs where potential reductions are not found;
- Schedule, by which costs could potentially be reduced (where appropriate); and
- Potential aggregate cost savings by calendar year, as appropriate.

SCHEDULES

Schedule A: 2025 Benchmark Tables

Child Care Centres

	Variable per operating space-day
PROGRAM STAFFING	
Infant	$92.03
Toddler	$56.48
Preschool	$39.23
Kindergarten	$15.03
Family age group	$56.48
Plus, ancillary costs of:	13.4%

	Fixed per centre per service day
SUPERVISOR	
All centres	$301.38
Scales with 0-5 operating capacity (from 0% to 100%), weighted by staffing ratio	
Plus, ancillary costs of:	16.2%

	Variable per operating space-day	Fixed per licensed space-day
OPERATIONS		
Community Setting		
Infant	$1.64	$15.09
Toddler	$1.64	$15.09
Preschool	$1.64	$15.09
Kindergarten	$5.55	$5.07
Family age group	$1.64	$15.09
Public School Setting		
Infant	$3.80	$9.61
Toddler	$3.80	$9.61
Preschool	$3.80	$9.61
Kindergarten	$3.56	$1.56
Family age group	$3.80	$9.61

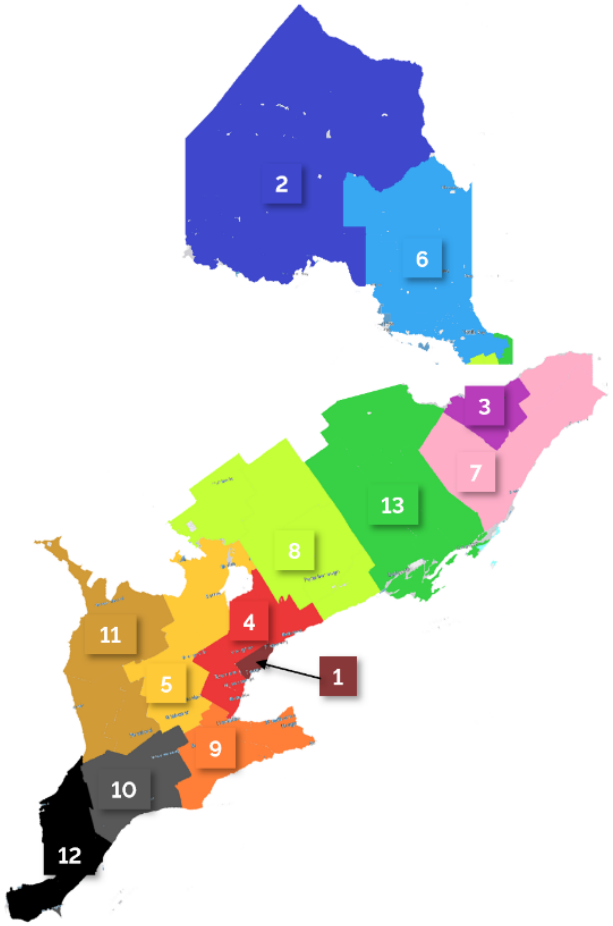
	Fixed per licensed space per year
ACCOMMODATIONS	
Community Setting	
Infant	$2,571.84
Toddler	$1,972.39
Preschool	$1,735.54
Kindergarten	$1,598.66
Family age group	$2,958.99
Public School Setting	
Infant	$1,622.91
Toddler	$974.25
Preschool	$797.58
Kindergarten	-
Family age group	$1,241.79

Home Child Care

	Variable per active home-day	Fixed per agency per year
HCC AGENCIES		
Provider compensation	$155.02	
Agency operations	$23.34	$75,856.39
Visitor compensation	$21.68	
Plus, ancillary costs (for visitor compensation):	5.0%	

Schedule B: 2025 Geographic Adjustment Factors

Geographic Adjustment Factor Region	Service System Manager	Geographic Adjustment Factor
1. Toronto – City	City of Toronto	1.07
2. Northwest	Kenora, Rainy River, Thunder Bay	1.02
3. Ottawa – City	City of Ottawa	0.94
4. Toronto – surrounding areas	Durham, York, Peel, Halton	0.87
5. Kitchener-Waterloo-Barrie	Waterloo, Simcoe, Dufferin, Wellington	0.87
6. Northeast	Algoma, Greater Sudbury, Cochrane, Nipissing, Parry Sound, Sault Ste Marie, Timiskaming, Manitoulin-Sudbury	0.85
7. Ottawa – surrounding areas	Cornwall, Prescott & Russell, Leeds & Grenville, Lanark	0.85
8. Muskoka-Kawarthas	Northumberland, Peterborough, Kawartha Lakes, Muskoka	0.84
9. Hamilton-Niagara Peninsula	Hamilton, Niagara, Brantford, Norfolk	0.82
10. London	London, Oxford, St. Thomas	0.81
11. Stratford-Bruce Peninsula	Stratford, Bruce, Grey, Huron	0.80
12. Windsor-Sarnia	Windsor, Chatham-Kent, Lambton	0.80
13. Kingston-Pembroke	Kingston, Lennox & Addington, Hastings, Renfrew	0.79



Schedule C: 2025 Growth Multipliers

Geographic Adjustment Factor Region	Service System Manager	Growth Top-Up
1. Toronto - City	City of Toronto	0.15
2. Northwest	Kenora District Services Board	0.15
	Rainy River District Social Services Administration Board	0.30
	Thunder Bay District Social Services Administration Board	0.15
3. Ottawa - City	City of Ottawa	0.15
4. Toronto - surrounding areas	Regional Municipality of Durham	0.15
	Regional Municipality of Halton	0.09
	Regional Municipality of Peel	0.23
	Regional Municipality of York	0.11
5. Kitchener-Waterloo-Barrie	County of Dufferin	0.13
	County of Simcoe	0.10
	County of Wellington	0.15
	Regional Municipality of Waterloo	0.22
6. Northeast	City of Greater Sudbury	0.28
	Algoma District Services Administration Board	0.08
	District of Cochrane Social Services Administration Board	0.03
	District of Nipissing Social Services Administration Board	0.15
	District of Parry Sound Social Services Administration Board	0.15
	District of Sault Ste Marie Social Services Administration Board	0.12
	District of Timiskaming Social Services Administrations Board	0.15
	Manitoulin-Sudbury District Services Board	0.23
7. Ottawa - surrounding areas	City of Cornwall	0.00
	County of Lanark	0.30
	United Counties of Leeds & Grenville	0.15
	United Counties of Prescott and Russell	0.30
8. Muskoka-Kawarthas	City of Kawartha Lakes	0.17
	City of Peterborough	0.15
	County of Northumberland	0.14
	District Municipality of Muskoka	0.15
9. Hamilton-Niagara Peninsula	City of Brantford	0.03
	City of Hamilton	0.21
	Norfolk County	0.20
	Regional Municipality of Niagara	0.10
10. London	City of London	0.14
	City of St. Thomas	0.12
	County of Oxford	0.19
11. Stratford-Bruce Peninsula	City of Stratford	0.17
	County of Bruce	0.15
	County of Grey	0.15
	County of Huron	0.21
12. Windsor-Sarnia	City of Windsor	0.14
	County of Lambton	0.15
	Municipality of Chatham-Kent	0.19
13. Kingston-Pembroke	City of Kingston	0.15
	County of Hastings	0.15
	County of Lennox & Addington	0.02
	County of Renfrew	0.30

Schedule D: 2025 Case Examples

Representative example #1 (small centre)

A new centre in the **"Ottawa – City"** economic region **in a community setting** plans to operate one room with **24 preschool spaces for 261 days** (that means, open weekdays all year), **running at 100% capacity**. The average daily base fee revenue per preschool space is expected to be $22.

(1) Program Cost Allocation

Calculate cost-based benchmark allocation, adjusted for geographic differences.

Step 1: Calculate unadjusted benchmark allocations.

Program Staffing Component Calculation:	**A**	x	**B**	x	**C**	=	**Total**
Preschool	$39.23	x	[24 x 261 =] 6,264	x	1.134	=	$278,665.44
Program staffing component:							**$278,665.44**

=

Supervisor Component Calculation:	**D**	x	**E**	x	**F**	x	**G**	=	**Total (per centre)**
Supervisor Component:	261	x	$301.38	x	100%	x	1.162	=	**$91,403.13**

Accommodations Component Calculation:	**H**	x	**I**	=	**Total**
Preschool	$1,735.54	x	24	=	$41,652.96
Accommodations component:					**$41,652.96**

=

Operations Component (fixed) Calculation:	**J**	x	**K**	=	**Total**
Preschool	$15.09	x	[24 x 261 =] 6,264	=	$94,523.76
Operations component (fixed):					**$94,523.76**

=

Operations Component (variable) Calculation:	L	x	B	=	Total	
Preschool	$1.64	x	[24 x 261 =] 6,264	=	$10,272.96	
Operations component (variable):					**$10,272.96**	**=**

Step 2: Sum components and apply GAF.

Program staffing	$278,665.44	
Supervisor	$91,403.13	+
Accommodations	$41,652.96	+
Operations	$94,523.76	+
	$10,272.96	+
Unadjusted benchmark allocation	**$516,518.25**	**=**
GAF (Ottawa-City)	0.94	x
Benchmark allocation	**$485,527.16**	**=**

Add to benchmark allocation: growth top-up.

Benchmark allocation	$485,527.16	
Growth multiplier (Ottawa)	0.15	x
Growth top-up	**$72,829.07**	**=**
Benchmark allocation	$485,527.16	+
Program Cost Allocation	**$558,356.23**	**=**

(2) Allocation in Lieu of Profit/Surplus

Allocation in Lieu of Profit/Surplus for the centre, with a benchmark allocation of $485,527.16 and a growth top-up of $72,829.07, would be calculated as the sum of:

1. 4.25% x ($485,527.16 + $72,829.07) = $23,730.14
2. 3.5% x $485,527.16 = $16,993.45
3. $6,000

or $46,723.59 (equivalent to 8.37% of their Program Cost Allocation).

(3) Expected Base Fee Revenue Offset

Daily base fee	x	Number of operating spaces expected to be charged this fee	x	Number of service days these spaces would be charged this fee	=	Total	
$22	x	24	x	261	=	$137,808	
Estimated base fee revenue						**$137,808**	
Adjustment for maximum vacancy rate						0.90	**x**
Expected Base Fee Revenue Offset						**$124,027.20**	**=**

Total Cost-Based Funding Allocation:

Program Cost Allocation	$558,356.23	
Allocation in Lieu of Profit/Surplus	$46,723.59	**+**
Expected Base Fee Revenue Offset	$124,027.20	**−**
Total Cost-Based Funding Allocation	**$481,052.62**	**=**

Representative example #2 (small-medium centre)

A legacy centre in the **"London"** economic region (meaning CMSMs/DSSABs of London, Oxford, and St. Thomas) **in a school setting** plans to operate one room with **26 kindergarten spaces** plus another 1/2 room with **15 primary/ junior school spaces for 202 days** (which means open for school year, net of breaks). They are licensed for an additional 15 primary/junior spaces (1/2 room) – that means, **running at 73% capacity.** The average daily base fees revenue per kindergarten space is expected to be $13.

(1) Program Cost Allocation

Calculate cost-based benchmark allocation, adjusted for geographic differences.

Step 1: Calculate unadjusted benchmark allocations.

Program Staffing Component Calculation:	**A**	x	**B**	x	**C**		=	**Total**
Kindergarten	$15.03	x	[26 x 202 =] 5,252	x	1.134		=	$89,515.19
Program staffing component:								**$89,515.19**

=

Supervisor Component Calculation:	**D**	x	**E**	x	**F***	x	**G**	=	**Total (per centre)**
Supervisor Component	202	x	$301.38	x	66.67%	x	1.162	=	**$47,163.10**

**where F = [26 x 202 x (1/13)]/[(26 x 202 x (1/13)) + (15 x 202 x (1/15))] = 66.67%*

Accommodations Component Calculation:	**H**	x	**I**	=	**Total**
Kindergarten	$0	x	26	=	$0
Accommodations component:					**$0**

=

Operations Component (fixed) Calculation:	**J**	x	**K**	=	**Total**
Kindergarten	$1.56	x	[26 x 202 =] 5,252	=	$8,193.12
Operations component (fixed):					**$8,193.12**

=

Operations Component (variable) Calculation:	L	x	B	=	Total
Preschool	$3.56	x	[26 x 202 =] 5,252	=	$18,697.12
Operations component (variable)					**$18,697.12**

=

Step 2: Sum components and apply GAF.

Program staffing	$89,515.19	
Supervisor	$47,163.10	+
Accommodations	$0	+
Operations	$8,193.12	+
	$18,697.12	+
Unadjusted benchmark allocation	**$163,568.53**	=
GAF (London)	0.81	x
Benchmark allocation	**$132,490.51**	=

Add to benchmark allocation: legacy top-up.

Legacy costs *(calculated)*	$134,366.73	
Benchmark allocation	$132,490.51	−
Legacy top-up	**$1,876.22**	=
Benchmark allocation	$132,490.51	+
Program Cost Allocation	**$134,366.73**	=

(2) <u>Allocation in Lieu of Profit/Surplus</u>

Allocation in Lieu of Profit/Surplus for the centre, with a benchmark allocation of $132,490.51 and a legacy top-up of $1,876.22, would be calculated as the sum of:

1. 4.25% x ($132,490.51 + $1,876.22) = $5,710.59
2. 3.5% x $132,490.51 = $4,637.17
3. $6,000

or $16,347.76 (equivalent to 12.17% of the Program Cost Allocation).

(3) Expected Base Fee Revenue Offset

Daily base fee		Number of operating spaces expected to be charged this fee		Number of service days these spaces would be charged this fee		Total	
$13	x	26	x	202	=	$68,276	
Estimated base fee revenue						**$68,276**	**+**
Adjustment for maximum vacancy rate						0.90	**x**
Expected Base Fee Revenue Offset						**$61,448.40**	**=**

Total Cost-Based Funding Allocation:

Program Cost Allocation	$134,366.73	
Allocation in Lieu of Profit/Surplus	$16,347.76	**+**
Expected Base Fee Revenue Offset	$61,448.40	**−**
Total Cost-Based Funding Allocation	**$89,266.09**	**=**

Representative example #3 (medium-large centre)

A legacy centre in the **"Toronto – surrounding areas"** economic region (meaning CMSMs/DSSABs of Durham, York, Peel, and Halton) **in a community setting** plans to operate five rooms with **88 age 0-5 spaces** (10 infant, 30 toddler, and 48 preschool) **for 261 days** (which means all weekdays throughout the year). They are licensed for an additional 13 kindergarten spaces (or 1/2 room) – that means, **running at 87% capacity.** The average daily base fees revenue per space are expected to be $22 for infant, $22 for toddler and $22 for preschool.

(1) Program Cost Allocation

Calculate cost-based benchmark allocation, adjusted for geographic differences.

Step 1: Calculate unadjusted benchmark allocations.

Program Staffing Component Calculation:	**A**	x	**B**	x	**C**	=	**Total**
Infant	$92.03	x	[10 x 261 =] 2,610	x	1.134	=	$272,384.87
Toddler	$56.48	x	[30 x 261 =] 7,830	x	1.134	=	$501,498.35
Preschool	$39.23	x	[48 x 261 =] 12,528	x	1.134	=	$557,330.88
Program staffing component:							**$1,331,214.10**

=

Supervisor Component Calculation:	**D**	x	**E**	x	**F**	x	**G**	=	**Total (per centre)**
Supervisor Component	261	x	$301.38	x	100%	x	1.162	=	**$91,403.13**

Accommodations Component Calculation:	**H**	x	**I**	=	**Total**
Infant	$2,571.84	x	10	=	$25,718.40
Toddler	$1,972.39	x	30	=	$59,171.70
Preschool	$1,735.54	x	48	=	$83,305.92
Kindergarten	$1,598.66	x	13	=	$20,782.58
Accommodations component:					**$188,978.60**

=

Operations Component (fixed) Calculation:	J	x	K	=	Total	
Infant	$15.09	x	[10 x 261 =] 2,610	=	$39,384.90	
Toddler	$15.09	x	[30 x 261 =] 7,830	=	$118,154.70	
Preschool	$15.09	x	[48 x 261 =] 12,528	=	$189,047.52	
Kindergarten	$5.07	x	[13 x 261 =] 3,393	=	$17,202.51	
Operations component (fixed):					**$363,789.63**	**=**

Operations Component (variable) Calculation:	L	x	B	=	Total	
Infant	$1.64	x	[10 x 261 =] 2,610	=	$4,280.40	
Toddler	$1.64	x	[30 x 261 =] 7,830	=	$12,841.20	
Preschool	$1.64	x	[48 x 261 =] 12,528	=	$20,545.92	
Operations component (variable)					**$37,667.52**	**=**

Step 2: Sum components and apply GAF.

Program staffing	$1,331,214.10	
Supervisor	$91,403.13	+
Accommodations	$188,978.60	+
Operations	$363,789.63	+
	$37,667.52	+
Unadjusted benchmark allocation	**$2,013,052.98**	**=**
GAF (Toronto – Surrounding Areas)	0.87	x
Benchmark allocation	**$1,751,356.09**	**=**

Add to benchmark allocation: legacy top-up.

Legacy costs *(calculated)*	$1,265,217.53	
Benchmark allocation	$1,751,356.09	−
Legacy top-up (floor of $0)	**$0**	=
Benchmark allocation	$1,751,356.09	+
Program Cost Allocation	**$1,751,356.09**	=

(2) Allocation in Lieu of Profit/Surplus

Allocation in Lieu of Profit/Surplus for the centre, with a benchmark allocation of $1,751,356.09 and a legacy top-up of $0, would be calculated as the sum of:

1. 4.25% x ($1,751,356.09 + $0) = $74,432.63
2. 3.5% x $1,751,356.09 = $61,297.46
3. $6,000

or $141,730.09 (equivalent to 8.09% of the Program Cost Allocation).

(3) Expected Base Fee Revenue Offset

Daily base fee	x	Number of operating spaces expected to be charged this fee	x	Number of service days these spaces would be charged this fee	=	Total	
$22	x	10	x	261	=	$57,420	
$22	x	30	x	261	=	$172,260	+
$22	x	48	x	261	=	$275,616	+
Estimated base fee revenue						**$505,296**	+
Adjustment for maximum vacancy rate						0.90	x
Expected Base Fee Revenue Offset						**$454,766.40**	=

Total Cost-Based Funding Allocation:

Program Cost Allocation	$1,751,356.09	
Allocation in Lieu of Profit/Surplus	$141,730.09	+
Expected Base Fee Revenue Offset	$454,766.40	−
Total Cost-Based Funding Allocation	**$1,438,319.78**	=

Representative example #4 (large centre)

A legacy centre in the **"Toronto - City"** economic region **in a school setting** plans to operate five rooms with **117 age 0-5 spaces** (15 toddler, 24 preschool, 78 kindergarten) plus another 2 rooms with **60 primary/ junior school spaces for 261 days** (which means, all weekdays throughout the year). They are licensed for an additional 10 infant spaces (1 room) – that means, **running at 95% capacity**. The average daily base fees revenue per space are expected to be $22 for toddler, $21 for preschool and $16 for kindergarten ($21 for full-day program on 74 non-school days and $14 for Before and After program on 187 school days).

(1) Program Cost Allocation

Calculate cost-based benchmark allocation, adjusted for geographic differences.

Step 1: Calculate unadjusted benchmark allocations.

Program Staffing Component Calculation:	**A**	x	**B**	x	**C**	=	**Total**
Toddler	$56.48	x	[15 x 261 =] 3,915	x	1.134	=	$250,749.17
Preschool	$39.23	x	[24 x 261 =] 6,264	x	1.134	=	$278,665.44
Kindergarten	$15.03	x	[78 x 261 =] 20,358	x	1.134	=	$346,982.16
Program staffing component:							**$876,396.77**

=

Supervisor Component Calculation:	**D**	x	**E**	x	**F***	x	**G**	=	**Total (per centre)**
Supervisor Component:	261	x	$301.38	x	75%	x	1.162	=	**$68,552.35**

**where F = [(15 x 261 x (1/5)) + (24 x 261 x (1/8)) + (78 x 261 x (1/13))]/[(15 x 261 x (1/5)) + (24 x 261 x (1/8)) + (78 x 261 x (1/13)) + (60 x 261 x (1/15))] = 75%*

Accommodations Component Calculation:	H	x	I	=	Total
Infant	$1,622.91	x	10	=	$16,229.10
Toddler	$974.25	x	15	=	$14,613.75
Preschool	$797.58	x	24	=	$19,141.92
Kindergarten	$0	x	78	=	$0
Accommodations component:					**$49,984.77**

=

Operations Component (fixed) Calculation:	J	x	K	=	Total
Infant	$9.61	x	[10 x 261 =] 2,610	=	$25,082.10
Toddler	$9.61	x	[15 x 261 =] 3,915	=	$37,623.15
Preschool	$9.61	x	[24 x 261 =] 6,264	=	$60,197.04
Kindergarten	$1.56	x	[78 x 261 =] 20,358	=	$31,758.48
Operations component (fixed):					**$154,660.77**

=

Operations Component (variable) Calculation:	L	x	B	=	Total
Toddler	$3.80	x	[15 x 261 =] 3,915	=	$14,877.00
Preschool	$3.80	x	[24 x 261 =] 6,264	=	$23,803.20
Kindergarten	$3.56	x	[78 x 261 =] 20,358	=	$72,474.48
Operations component (variable):					**$111,154.68**

=

Step 2: Sum components and apply GAF.

Program staffing	$876,396.77	
Supervisor	$68,552.35	+
Accommodations	$49,984.77	+
Operations	$154,660.77	+
	$111,154.68	+
Unadjusted benchmark allocation	**$1,260,749.34**	=
GAF (Toronto – City)	1.07	x
Benchmark allocation	**$1,349,001.79**	=

Add to benchmark allocation: legacy top-up.

Legacy costs *(calculated – see below)*	$1,790,973.71	
Benchmark allocation	$1,349,001.79	−
Legacy top-up	**$441,971.92**	=
Benchmark allocation	$1,349,001.79	+
Program Cost Allocation	**$1,790,973.71**	=

Calculation of Legacy Costs

Step 1a: Calculate 2023 Adjusted Costs

Using audited 2023 Statement of Operations, total costs for age 0 to 12 are as follows:

Costs related to program staffing:	
Salaries and wages	1,080,000
Bonuses	60,000
Employee benefits	80,000
Group insurance benefits	12,000
Costs related to supervisor:	
Salaries and wages	125,000
Bonuses	30,000
Employee benefits	8,000
Group insurance benefits	5,000
Costs related to accommodation:	
Occupancy costs	70,000
Repairs and maintenance	10,000
Security	5,000
Costs related to operations:	
Fundraising event	5,000
Advertising and promotion	10,000
Accounting fees	3,000
Management and administration fees	110,000
Restructuring costs	20,000
Directors' fees	50,000
Insurance	10,000
TOTAL EXPENSES	**$1,693,000**

In 2023, the operating reality was:

	Infant	Toddler	Preschool	Kindergarten	Family	Primary/ Junior	Junior
Operating spaces	6	15	16	26		30	
Operating days	250	250	250	250		250	
Typical hours of service	10	10	10	5		5	
Licensed spaces	10	15	24	78		60	

Using the methodology to split out 0-5 costs per section 1.1(b)(i), the eligible shares are:

- Program staffing and operations:
  - 0-5: 6 x (3/10) x 10 + 15 x (1/5) x 10 + 16 x (1/8) x 10 + 26 x (1/13) x 5 = 78
  - 6-12: 30 x (1/15) x 5 = 10
  - Eligible share: 78 / (78+10) = 88.64%
- Supervisor:
  - 0-5: 6 x (3/10) + 15 x (1/5) + 16 x (1/8) + 26 x (1/13) = 8.8
  - 6-12: 30 x (1/15) = 2
  - Eligible share: 8.8 / (8.8+2) = 81.48%
- Accommodation:
  - 0-5: 10 x (1/10) + 15 x (1/15) + 24 x (1/24) + 78 x (1/26) = 6
  - 6-12: 60 x (1/30) = 2
  - Eligible share: 6 / (6+2) = 75%

With these splits, the total eligible costs for 2023 is $1,472,620.40, calculated as the sum of follows:

Eligible costs related to program staffing:	
Salaries and wages (1,080,000 x 88.64%)	957,312
Bonuses (60,000 x 88.64%)	53,184
Employee benefits (80,000 x 88.64%)	70,912
Group insurance benefits (12,000 x 88.64%)	10,636.80
Eligible costs related to supervisor:	
Salaries and wages (125,000 x 81.48%)	101,850
Bonuses (30,000 x 81.48%)	24,444
Employee benefits (8,000 x 81.48%)	6,518.40
Group insurance benefits (5,000 x 81.48%)	4,074
Eligible costs related to accommodation:	
Occupancy costs (70,000 x 75%)	52,500
Repairs and maintenance (10,000 x 75%)	7,500
Security (5,000 x 75%)	3,750
Eligible costs related to operations:	
Advertising and promotion (10,000 x 88.64%)	8,864
Accounting fees (3,000 x 88.64%)	2,659.20
Management and administration fees (110,000 x 88.64%)	97,504
Restructuring costs (20,000 x 88.64%)	17,728
Directors' fees (50,000 x 88.64%)	44,320
Insurance (10,000 x 88.64%)	8,864
TOTAL ELIGIBLE COSTS	**$1,472,620.40**

Note: The $5,000 fundraising event cost is excluded as it is not attributable to the provision of child care included in the base fee for eligible children, and therefore is not an eligible cost.

The 2023 adjusted costs are calculated as:

Total eligible costs for 2023	**1,472,620.40**
Less: 2023 non-recurring costs	
Restructuring costs	(17,728)
Repairs and maintenance (only non-recurring)	(1,500)
Less: 2023 fixed costs	
Occupancy costs	(52,500)
Insurance	(8,864)
Property tax (not applicable as in this example the cost is covered by the landlord)	(0)
Less: 2023 CWELCC workforce compensation and WEG/HCCEG *(calculated)*	(45,000)
Less: 2023 salary and benefits for one controlling owner employed by the licensee *(assumed to be included in the supervisor cost for this example)*	(136,886.40)
2023 adjusted costs	**$1,210,142**

Step 1b: Multiply 2023 Adjusted Costs by Scaling Factors

In 2025, operating reality is expected to be:

	Infant	Toddler	Preschool	Kindergarten	Family	Primary/ Junior	Junior
Operating spaces		15	24	78		60	
Operating days		261	261	261		261	
Typical hours of service		10	10	5		5	
Licensed spaces	10	15	24	78		60	

The operating scaling factor is calculated as:

- 2025: 15 x 261 x (1/5) x 10 + 24 x 261 x (1/8) x 10 + 78 x 261 x (1/13) x 5 = 23,490
- 2023: 6 x 250 x (3/10) x 10 + 15 x 250 x (1/5) x 10 + 16 x 250 x (1/8) x 10 + 26 x 250 x (1/13) x 5 = 19,500
- Operating scaling factor: 23,490 / 19,500 = 1.2046

The 2025 adjusted costs are calculated as:

2023 adjusted costs	**1,210,142**
Multiply: cost escalation factor (provided in this guideline)	1.0465
Multiply: operating scaling factor	1.2046
2025 adjusted costs	**$1,525,521.83**

The 2025 fixed costs are calculated consistent with auditable documentation:

Occupancy costs (as per latest lease agreement)	77,000
Add: Insurance (as per latest insurance policy)	12,085.88
Add: Property tax (as per latest municipal bill)	0
2025 fixed costs	**$89,085.88**

Legacy costs

2025 adjusted costs	**1,525,521.83**
Step 1c: add 2025 "workforce funding" *(calculated separately, following the <<workforce guideline>>)*	55,000
Step 1d: add 2025 fixed costs	89,085.88
Step 1e: add 2025 controlling owner's compensation for labour Minimum of: • 133,846.40 x 1.0465 = 140,070.26 • 465 x 261 days = 121,365	121,365
Legacy costs	**$ 1,790,972.71**

(2) Allocation in Lieu of Profit/Surplus

Allocation in Lieu of Profit/Surplus for the centre, with a benchmark allocation of $1,349,001.79 and a legacy top-up of $441,971.92, would be calculated as the sum of:

1. 4.25% x ($1,349,001.79 + $441,971.92) = $76,116.38
2. 3.5% x $1,349,001.79 = $47,215.06
3. $6,000

or $129,331.44 (equivalent to 7.22% of the Program Cost Allocation).

(3) Expected Base Fee Revenue Offset

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

Total Cost-Based Funding Allocation:

Program Cost Allocation	$1,790,973.71	
Allocation in Lieu of Profit/Surplus	$129,331.44	+
Expected Base Fee Revenue Offset	$488,781.00	−
Total Cost-Based Funding Allocation	**$1,431,524.15**	=

Representative example #5 (home child care agency)

A new agency plans to operate **10 active homes** (out of 35 approved) in the "Northeast" economic region (meaning CMSMs/DSSABs of Algoma, Greater Sudbury, Cochrane, Nipissing, Parry Sound, Sault Ste Marie, Timiskaming, Manitoulin-Sudbury). **7 active homes plan** to operate for **261 days** (which means all weekdays) and **3 plan** to operate for **45 days** (which means only for summer weekdays). The homes average **4 children aged 0-5**. 20 active home seats are expected to be charged daily base fee revenue of $22 for 261 days, 10 active home seats are expected to be charged daily base fee revenue of $22 for 45 days, and 10 active home seats are expected to be charged daily base fee revenue of $12 for 261 days.

(1) Program Cost Allocation

Calculate cost-based benchmark allocation, adjusted for geographic differences.

Step 1: Calculate unadjusted benchmark allocations.

Provider Compensation Calculation:	**O**	x	**P**	=	**Total**
Provider Compensation Component:	$155.02	x	[7 x 261 + 3 x 45 =] 1,962	=	**$304,149.24**

Visitor Compensation Calculation:	**Q**	x	**P**	x	**R**	=	**Total**
Visitor Compensation Component:	$21.68	x	[7 x 261 + 3 x 45 =] 1,962	x	1.05	=	**$44,662.97**

Operations Calculation:	**S**	x	**P**	+	**T**	=	**Total**
Operations Component:	$23.34	x	[7 x 261 + 3 x 45 =] 1,962	+	$75,856.39	=	**$121,649.47**

Step 2: Sum components and apply GAF.

Provider Compensation	$304,149.24	
Visitor Compensation	$44,662.97	+
Operations	$121,649.47	+
Unadjusted benchmark allocation	**$470,461.68**	=
GAF (Northeast)	0.85	x
Benchmark allocation	**$399,892.43**	=

Add to benchmark allocation: growth top-up.

Benchmark allocation	$399,892.43	
Growth multiplier (Algoma*)	0.08	x
Growth top-up	**$31,991.39**	=
Benchmark allocation	$399,892.43	+
Program Cost Allocation	**$431,883.82**	=

**Assuming the agency and active homes are located in Algoma.*

(2) <u>Allocation in Lieu of Profit/Surplus</u>

Allocation in Lieu of Profit/Surplus for the agency, with a benchmark allocation of $399,892.43 and a growth top-up of $31,991.39, would be calculated as the sum of:

1. 4.25% x ($399,892.43 + $31,991.39) = $18,355.06
2. 3.5% x $399,892.43 = $13,996.24
3. $6,000

or $38,351.30 (equivalent to 8.88% of the Program Cost Allocation).

(3) Expected Base Fee Revenue Offset

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

Total Cost-Based Funding Allocation:

Program Cost Allocation	$431,883.82	
Allocation in Lieu of Profit/Surplus	$38,351.30	+
Expected Base Fee Revenue Offset	$140,454	−
Total Cost-Based Funding Allocation	**$329,781.12**	=