Ministry of Education
Early Years and Child Care Division

315 Front Street West, 11th Floor
Toronto ON M5V 3A4

Ministère de l'Éducation
Division de la petite enfance et de la garde d'enfants

315, rue Front Ouest, 11e étage
Toronto ON M5V 3A4

2024: EYCC05

TO: Child Care Licensees

FROM: Holly Moran, Assistant Deputy Minister
Early Years and Child Care Division

DATE: August 15, 2024

SUBJECT: **New Child Care Funding Approach**

Thank you for your ongoing commitment to ensuring Ontario families have access to affordable, accessible, inclusive, and high-quality child care. We appreciate your continued collaboration and value your ongoing feedback as we work together towards these goals.

With that, I am pleased to share the following to support implementation of a new cost-based approach to Canada-wide Early Learning and Child Care (CWELCC) funding, starting 2025:

- A new CWELCC Cost-Based Funding Guideline, effective January 1, 2025;
- Online webinars that provide a high-level walk-through of the new approach through representative case examples (https://vimeo.com/user/224327029/folder/21786437); and
- An online Cost-Based Funding Estimator to provide further support in understanding the new approach (available soon).

Note that the new CWELCC Cost-Based Funding Guideline includes placeholder references to sections of the remaining funding guidelines, which will come later in 2024.

Key Updates

a) Cost-based Funding (2025 onwards)

Starting January 1, 2025, the new funding approach described in the new Cost-Based Funding Guideline will take effect. Cost-based funding provides support for operating costs for licensees participating in CWELCC for the delivery of child care to children aged 0-5 years.

Design of the new approach was heavily guided by extensive stakeholder engagement. As a result, and as described in the new guideline, cost-based funding is guided by the following 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.

To achieve balance towards realizing these principles, cost-based funding allocations to licensees will include benchmark-based allocations with adjustment factors to account for geographic variances, growth top-ups for new spaces or top-ups for existing licensees whose cost structures exceed their benchmark allocations, and amounts in lieu of profit and surplus.

The benefits of this new approach include:

- Eligible costs will be covered, plus a guaranteed amount in lieu of profit/surplus in respect of those eligible costs (reducing risk for the sector);
- Benchmarks are based on actual data from the sector and represent typical costs associated with providing child care in Ontario;
- Allocations will be applied consistently and transparently;
- New operators will have certainty in what public funding they can expect; and
- Flexibility for how operators run their businesses will be maintained by not reconciling cost-based allocations against eligible costs “line by line”.

To ensure cost containment and the proper use of public funds, CMSMs/DSSABs will be required to reconcile cost-based funding allocated to licensees with actual eligible costs at the end of the year, select a subset of licensees for Direct Engagements to Report on Compliance, and perform cost reviews of the most disproportionately high top-up allocations, among other measures.

Please note that cost-based funding does not change the direct relationship between CMSMs/DSSABs and licensees, including dispute resolution.

The ministry has been informed that employees in 25 of 47 regions may have received part or all of their CWELCC wage increase up front, rather than gradually, based on an interpretation of ministry guidelines for the program.

While not part of the Province’s plan, service managers **will not** be required to recover related funding that has already been flowed to licensees in such cases. Wage increases for affected employees can be held constant until affected employees become eligible for additional increases.

For greater certainty and to ensure consistency across CMSMs/DSSABs going forward, the ministry is clarifying that “base wages” – for the purposes of wage enhancement funding allocations (such as WEG/HCCEG or wage enhancements as part of the Child Care Workforce Strategy) – must include any general operating funding provided to licensees for the purposes of improving wages.

b) Next Parent Fee Reduction

Along with implementation of the new cost-based funding approach, to support the transition to $10 per day average fees by the end of 2025-26, families with children in programs enrolled in the CWELCC system would see child care base fees capped at $22 per day effective January 1, 2025. Regulatory amendments to Ontario Regulation 137/15 under the *Child Care and Early Years Act,*

2014 (CCEYA) will be required to operationalize this change to base fees, pending consultation and approval. When proposing changes to the regulations under the CCEYA, the ministry is required to consult with the sector for at least 45 days; the consultation is now live – please visit (please see the Ontario Regulatory Registry: https://www.ontariocanada.com/registry/).

c) Non-CWELCC-Enrolled Licensees

Under the new cost-based funding approach, licensees not participating in CWELCC may continue to run their operations under the existing provincial licensing and regulatory framework.

Some of these non-participating licensees may currently be recipients of child care routine funding (that is, general operating, fee subsidy, or wage enhancement grants). Starting in 2025, as the age 0-5 portion of the routine funding is being integrated into cost-based funding under CWELCC to ensure the success of that system, routine funding must not be used to support such licensees, unless it relates to fee subsidies. For clarity, as of 2025, non-participating licensees delivering child care to children aged 0-5 will no longer be eligible for routine funding that they may have had access to previously.

Existing fee subsidy agreements may continue to be funded until the benefitting child ages-out of the program or leaves the licensee.

We recognize that the implementation of the CWELCC system is a significant undertaking and appreciate your commitment as we transition to a new funding approach – one that is sustainable and responsive to child care cost structures to support an affordable child care system and its growth.

We want to reiterate our sincerest appreciation for your continued partnership as we work towards improving and strengthening child care and early years programs and services in Ontario.

Sincerely,

Original signed by:

Holly Moran
Assistant Deputy Minister
Early Years and Child Care Division

cc: Consolidated Municipal Service Managers and District Social Services Administration Boards
Matthew DesRosiers, Director, Funding Branch
Katie Williams, Director, Early Years Branch
Karen Puhlmann, Director, Child Care Branch