



CITY OF HAMILTON
HEALTHY AND SAFE COMMUNITIES DEPARTMENT
Children's and Community Services Division

TO:	Chair and Members Emergency and Community Services Committee
COMMITTEE DATE:	November 7, 2024
SUBJECT/REPORT NO:	Canada-Wide Early Learning and Child Care New Funding Formula, Emerging Issues Funding, and One Time Administration Funding (HSC24025(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Rebecca Appleby (905) 546-2424 Ext. 3587
SUBMITTED BY:	Brenda Bax Acting Director, Children's and Community Services Division Healthy and Safe Communities Department
SIGNATURE:	<i>BBax</i>

RECOMMENDATION

- (a) That the City of Hamilton accept the additional 100 percent provincial 2024 Canada-Wide Early Learning and Child Care one-time incremental Administration funding in the amount of \$1,139,665 and incremental Emerging Issues funding in the amount of \$865,363, and;
- (b) That the General Manager of Healthy and Safe Communities Department, or designate, be authorized and directed to execute, on behalf of the City, the funding agreement from the Ministry of Education, as well as any ancillary agreements associated with this funding in a form satisfactory to the City Solicitor.

EXECUTIVE SUMMARY

Ontario is in its third year of implementing the Canada-Wide Early Learning and Child Care plan. The plan aims to ensure more families across Ontario have access to safe, affordable and high-quality child care. Canada-Wide Early Learning and Child Care will be fully phased in by March 2026, with the average cost of child care for eligible children zero to five years reduced to \$12 per day.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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On August 1, 2024, the Ministry of Education announced the new cost-based formula to Canada-Wide Early Learning and Child Care funding which will take effect January 1, 2025. This funding approach provides support for operating costs for licensees participating in Canada-Wide Early Learning and Child Care to deliver child care to children aged zero to five and is intended to be more responsive to the true cost of providing child care in Ontario.

Under this new formula, families will also benefit from a further reduction in child care fees, which will be capped at \$22.00 per day effective January 1, 2025. Currently, families are saving an average of \$9,100 annually and these savings will increase to \$10,640 in 2025.

The provincial announcement on August 1, 2024, includes an additional one-time in-year administrative funding allocation to support municipalities with the implementation of the new cost-based formula to Canada-Wide Early Learning and Child Care funding. Hamilton will receive \$1,139,665 in additional funding to support the division's work on implementation which must be spent by December 31, 2024, .

The announcement also confirmed that the one-time transitional grant funding that has been provided to municipalities since 2021 to maintain a 10 percent cap on administrative costs, ended on March 31, 2024 and that effective January 1, 2025, the new 5 percent cap on administrative costs will take effect.

Additionally, on September 13, 2024, the province issued a memo announcing additional one-time Emerging Issues funding for 2024 to support licensees in addressing non-discretionary cost pressures beyond their control. Hamilton will receive \$865,363, which will be available through an application process to licensees enrolled in Canada-Wide Early Learning and Child Care.

Divisional staff continue to review the new funding guidelines and monitor Ministry updates to ensure compliance and readiness for the January 1, 2025 implementation of the new funding approach.

NEW CANADA-WIDE EARLY LEARNING AND CHILD CARE COST-BASED FUNDING FORMULA

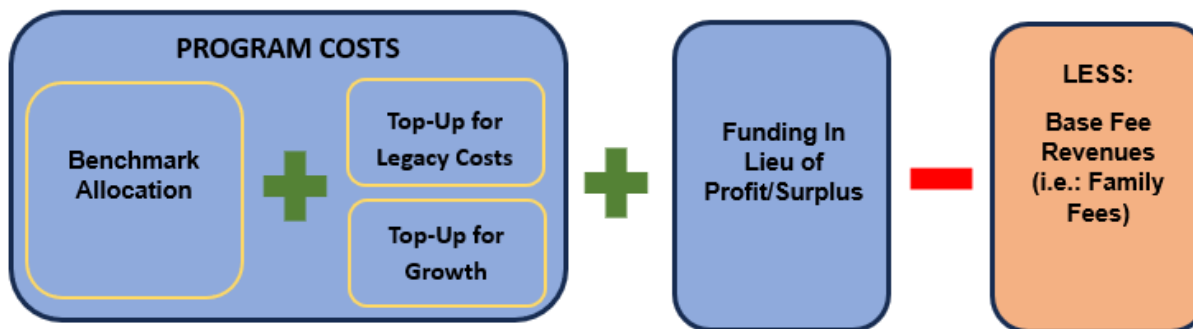
Hamilton currently has 227 licensed child care programs eligible to participate in Canada-Wide Early Learning and Child Care and 212 have enrolled. Effective January 1, 2025, these 212 enrolled licensees will have their annual funding determined under the new cost-based funding formula. This formula includes benchmark-based allocations, additional funding for creating new spaces, top-ups for existing programs with costs that exceed their benchmarks, and payments in place of profit and surplus.

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The Ministry of Education has announced, under the new cost-based funding formula, that licensees not participating in Canada-Wide Early Learning and Child Care will no longer be eligible for routine funding. Starting January 1, 2025, the fifteen licensees that have not enrolled in Canada-Wide Early Learning and Child Care will no longer qualify for general operating or wage enhancement grants. The City has formally notified these Licensees about the funding discontinuation. However, these licensed child care programs can continue to operate under the existing provincial licensing and regulatory framework. If they wish to join the Canada-Wide Early Learning and Child Care system, they must apply through the City's directed growth application process.

Starting January 1, 2025, Licensees participating in the Canada Wide Early Learning and Child Care for the delivery of child care to children ages zero to five years will now be funded based on eligible costs incurred in the calendar year, up to a maximum amount of funding determined by the formula outlined below. Fee reductions, workforce compensation, cost escalation and other routine funding for general operating and wage enhancement grants for ages zero to five are now being integrated into the new cost-based funding approach:

The cost-based child care funding formula provides funding to all licensees enrolled in Canada-Wide Early Learning and Child Care, based on the following key allocations:



- 1. Program Costs** – This allocation covers the eligible costs of providing child care and includes two parts:
 1. a benchmark allocation representing the typical costs of quality child care in a specific region, based on planned operating spaces.
 2. a legacy top-up for licensees whose costs exceed the benchmark, and/or a growth top-up for new or existing licensees that add new licensed spaces or homes during the year.
- 2. Funding In Lieu of Profit/Surplus** – In addition to covering eligible costs, the funding formula includes an amount to account for opportunity costs related to participating in Canada-Wide Early Learning and Child Care, as well as the risks of running a business or for reinvestment in child care.

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- 3. Base Fee Revenues** – Amount of revenue estimated to be earned in the calendar year based on planned operating spaces. Licensees allocation will be decreased to reflect anticipated revenue received, as they will continue to collect fees from families for child care. The fee calculation is adjusted by a 10 percent vacancy rate (for 2025) to account for turnover, which offsets the program cost allocation.

The Children’s and Community Services Division is currently refining these new funding calculations and gathering additional data for the 2025 budget. Information sessions were held at the end of October that provided an opportunity for staff and Licensees to engage on these changes. Additional resources, including ongoing FAQ’s will be posted on the City’s website and shared through regular communication updates to Licensees.

To ensure accountability over the equitable distribution and utilization of public funds, the City of Hamilton will be required to reconcile funding allocated to licensees with their actual eligible costs annually and perform cost reviews on licensees receiving higher legacy top-up allocations, in addition to other provincial reporting requirements. The Children’s and Community Services Division is planning in 2025 to review and update current business processes and staffing model to support the new funding model.

2025 Provincial Funding Overview

With the provincial announcement, the City of Hamilton received notification of its preliminary 2025 Child Care funding allocations:

2025 Child Care Funding Allocation Overview

Cost-Based Allocation	Start-Up Grants	Local Priorities Allocation	Administration Allocation	Total
\$ 143,787,480	\$ 3,728,700	\$ 33,064,094	\$ 3,223,315	\$ 183,803,589

- 1. Cost-Based Allocation** - the \$143.8 million cost-based funding allocation will be provided directly to licensees participating in Canada-Wide Early Learning and Child Care to support their operating costs for the delivery of child care to children aged zero to five.
- 2. Start-Up Grants** - the \$3.7 million start-up grant funding will support Canada-Wide Early Learning and Child Care space expansion for ages zero to five years through the City’s directed growth application process.

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3. **Local Priorities Allocation** - the \$33 million local priorities funding allocation will be used to support the following child care programs:
- a. General operating grants and workforce funding (for ages 6-12);
 - b. Professional learning (for ages 0-12);
 - c. Fee subsidies (for ages 0-12);
 - d. Special needs resourcing (for ages 0-12);
 - e. Capacity building (for ages 0-12);
 - f. Claims-based funding – small water works (for ages 0-12)

The provincial funding guidelines for the local priorities are currently pending, with an anticipated release date of November 2024. While municipalities will have flexibility in how to spend the local priorities allocation, the pending guidelines will include certain limitations on how such funding may be spent. However, no significant changes to the above listed child care programs are expected for 2025.

4. **Administration Allocation** - the \$3.2 million is the City of Hamilton’s funding allocation to support its administrative capacity to support the early years and child care sector. This is reflective of a 5% administrative cap. The cost-based funding announcement did not include any new base administration funding for the City of Hamilton.

2024 Provincial Funding Allocations

For comparison, the below chart outlines the City of Hamilton’s current 2024 funding allocations from the province:

2024 Child Care Funding Allocations

Canada-Wide Early Learning and Child Care System Allocation	Start-Up Grants	Child Care Core System Allocation	Administration Allocation	One Time Administration Funding (transitional funding)	Total
\$ 82,955,254	\$ 3,208,500	\$ 66,541,561	\$ 3,196,216	\$1,139,665	\$ 157,041,196

Our overall allocation has increased for 2025. The province has redistributed a portion of our current Child Care Core System Allocation to the new Cost-Based funding allocation for Canada-Wide Early Learning and Child Care. The remaining funding from the Child Care Core System Allocation is now being referred to as Local Priorities funding starting January 1, 2025. As noted above, there has been no real shift to the

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division's administration funding allocation, however the one-time transitional grant funding provided until March 31, 2024 has ended.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: \$865,363 in additional one-time emerging issues funding has been provided in 2024 for Canada-Wide Early Learning and Child Care enrolled licensees to address and support non-discretionary cost pressures beyond their control.

The City of Hamilton is receiving \$1,139,665 in one-time administration funding for 2024 to support implementation of the new funding formula and must be spent by December 31, 2024. Unspent funds cannot be carried over to future years.

One-time transitional grant funding provided to municipalities to maintain a 10 percent cap on administrative costs, ended on March 31, 2024. Effective January 1, 2025, the new 5 percent cap on administrative costs will take effect, with no new base administration funding provided to the City of Hamilton. As noted in the multi-year budget due to the expected funding reductions, and 50/50 cost share requirements, staff have projected a funding pressure of approximately \$2 million in 2025.

Staffing: Not Applicable

Legal: The revised 2024 Ontario Transfer Payment Agreement has been received from the Ministry of Education and is now under legal review.

HISTORICAL BACKGROUND

In January 2021, the Ministry of Education announced they would be adjusting the municipal administration funding allocation and cost-sharing arrangement attached to administrative funding. The announcement identified (1) a reduction of the allowable administrative funding threshold from 10 percent down to 5 percent; and (2) requirement for municipalities to cost-share provincial child care administrative funding at a rate of 50/50 provincial/municipal. To support this transition, the Ministry of Education provided transitional grant funding in 2021, 2022, and 2023 to allow municipalities to maintain the 10 percent maximum for administrative costs until March 31, 2024.

At the time of this announcement the Ministry of Education committed to reduce administrative burden for municipalities as part of the government-wide commitment to reduce administrative burden and red tape by 25 percent. These efforts focused on streamlining reporting, contract management and general burden reduction efforts as an

offset to the reduction in funding. However, to date, the Children's and Community Services Division has not experienced any reduction in administrative workload. In contrast, the Division has faced increased administrative pressures due to heightened funding requirements and the need to implement new strategies, including rolling out the Canada-Wide Early Learning and Child Care plan and new cost-based funding model, managing workforce compensation, developing new business processes and accountability frameworks, handling start-up grants and overseeing directed growth applications.

On March 28, 2022, the Province of Ontario signed the Canada-Wide Early Learning and Child Care agreement with the federal government. The plan is designed to support Ontario's children, families, and the child care sector to provide high-quality, affordable, accessible, and inclusive licensed child care programs. In 2022, the priorities focused on encouraging licensed child care programs to opt into Canada-Wide Early Learning and Child Care and reducing fees for families.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The City of Hamilton is the Service System Manager for the Early Years System as required by the Child Care and Early Years Act, 2014.

RELEVANT CONSULTATION

Internal consultation within the Division and finance staff was completed, along with relevant external consultation with the local Consolidated Municipal Service Manager Advisory group.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The additional 2024 Canada-Wide Early Learning and Child Care incremental administration funding will be utilized based on the Ministry of Education's *Ontario Canada-Wide Early Learning and Child Care Guideline* (See Appendix "A" to report HSC24025(a)) that was released on August 1, 2024, to support the implementation of the new cost-based funding formula.

ALTERNATIVES FOR CONSIDERATION

Not Applicable

APPENDICES AND SCHEDULES

Appendix "A" Canada-Wide Early Learning and Child Care Cost-Based Funding
Guideline – July 2024