TORONTO

REPORT FOR ACTION

Implementation of the Canada-wide Early Learning and Child Care System and 2025 to 2029 Child Care and Early Years Service Plan: Update

Date: November 12, 2024
To: Economic and Community Development Committee
From: General Manager, Children's Services
Wards: All

SUMMARY

This report provides an update on the implementation of the Canada-wide Early Learning and Child Care system in Toronto, including an initial analysis of the Province's new cost-based funding approach to funding. The report also discusses recently announced program changes and their potential impacts on the child care sector in Toronto. Finally, the report provides an update on the development of the 2025-2029 Child Care and Early Years Service Plan for Toronto.

RECOMMENDATIONS

The General Manager, Children's Services recommends that:

1. City Council request the Federal and Provincial governments increase capital funding to meet Canada-wide Early Learning and Child Care targets in the not-for-profit and public sector for Toronto.

2. City Council request the General Manager, Children's Services collaborate with child care stakeholders and partners to identify strategies that will enhance equitable access to child care for families in receipt of fee subsidy that further address the City's Poverty Reduction Strategy.

3. City Council request the General Manager, Children's Services, in consultation with the Chair, Economic and Community Development Committee, to convene roundtable meeting of Indigenous partners, City and School Board staff; organizations representing families, educators, and supervisors; unions; experts, and other community stakeholders and partners for the purpose of information sharing and community advocacy in support of a high-quality, affordable, and sustainable child care system in Toronto.

FINANCIAL IMPACT

This report provides an update on the implementation of the Canada-wide Early Learning and Child Care System (CWELCC) and the new funding formula being introduced by the Province of Ontario from January 01, 2025.

Children's Services continues in its requests of the other orders of government for sustainable multi-year operating and capital funding to achieve the vision laid out in the Growth Strategy, increasing access to affordable child care programs, improving workforce compensation, and to support affordability for all families.

Children's Services will provide updates with the financial impacts of the new provincial funding formula, including potential budget adjustments fully funded by the Province, through the 2025 budget submission process.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

EQUITY IMPACT

Child care is critical infrastructure that supports the healthy development and social wellbeing of children, contributes to poverty reduction, and supports increased workforce participation, particularly for women. The benefits of child care on children's learning, health, and social development are greatest for communities experiencing high inequities. Toronto's Licensed Child Care Growth Strategy aims to improve affordability for families and wages in the early years workforce. The Canada-wide Early Learning and Child Care agreement and the Province's Access and Inclusion Framework also seek to improve affordability and access to high-quality, licensed child care for Toronto families, and make investments in the early years workforce.

DECISION HISTORY

On July 24 and 25, 2024, City Council requested the General Manager, Children's Services to report back to the Economic and Community Development Committee in the fourth quarter of 2024 with an update on growth and expansion within Toronto's licensed childcare sector, ongoing implementation of the Canada-wide Early Learning and Child Care system, and an analysis of the provincial funding formula for the Canada-wide Early Learning and Child Care agreement.

https://secure.toronto.ca/council/agenda-item.do?item=2024.EC14.12

On December 13, 14, and 15, 2023, City Council reaffirmed the City's support for building a system of early learning and child care services that are high-quality, public and not-for profit, affordable, inclusive and accessible for all families, and requested that the Federal and Provincial Governments consult with the City and provide capital and operating funding to reflect the regional and actual costs of developing and operating child care spaces in Toronto.

https://secure.toronto.ca/council/agenda-item.do?item=2023.EC8.10

On June 14 and 15, 2023, City Council requested the General Manager, Children's Services to report to City Council, through the Economic and Community Development Committee, by November 28, 2023, on the number and capital funding source of new child care spaces constructed since the adoption of the Licensed Child Care Growth Strategy (the Strategy) in 2017, as well as an update on the progress of child care expansion as it relates to the Strategy.

https://secure.toronto.ca/council/agenda-item.do?item=2023.EC4.3

On July 19, 2022, City Council requested that the Province of Ontario engage with the City of Toronto in the development and implementation of the Canada-Wide Early Learning and Child Care System and revised Funding Formula to: support the goals of the Licensed Child Care Growth Strategy; provide increased capital and operating funding to expand capacity in the non-profit sector; preserve local authority of service system managers, update fee subsidy income thresholds, and respond to workforce challenges.

https://secure.toronto.ca/council/agenda-item.do?item=2022.EC31.8

On June 8 and 9, 2021, City Council direct the General Manager, Children's Services to continue to invest funding from all levels of government in the targets identified in the Child Care Growth Strategy to increase capacity, improve affordability, support the workforce, and report to City Council, through the Economic and Community Development Committee once the new funding commitments and eligibility criteria are confirmed.

https://secure.toronto.ca/council/agenda-item.do?item=2021.EC22.2

On November 7, 8, and 9, 2017, City Council adopted a report titled "Child Care Growth Strategy – Phase One Implementation (2017 – 2019) "which provided specific objectives for implementation of the first phase of the 10-year Child Care Growth Strategy in areas of capital, affordability, and wages.

https://secure.toronto.ca/council/agenda-item.do?item=2017.CD23.5

On April 26, 27, and 28 2017, City Council adopted the 10-year Child Care Growth Strategy.

https://secure.toronto.ca/council/agenda-item.do?item=2017.CD19.2

COMMENTS

Canada-Ontario Canada-wide Early Learning and Child Care Agreement

On March 27, 2022, the Government of Canada and the Province of Ontario signed the agreement for the Canada-wide Early Learning and Child Care (CWELCC) system in Ontario. The CWELCC agreement is a five-year plan intended to support increased quality, accessibility, affordability, and inclusivity in the licensed child care sector. Key objectives of the program include lowering child care fees for eligible children 0 to 5 to an average fee of $10 per day by 2026, improving wages and increasing access to high-quality child care programs. As the service system manager for early years and child care services, Children's Services is responsible for operationalising provincial direction and administering funding locally.

The transition to the CWELCC system in Ontario is at the mid point of implementation. It is being implemented in stages with an initial focus on increasing affordability for families. Year one (2022) included an open application process where operators and agencies were invited to opt-in to the CWELCC system and rebates, and fee reductions were issued to eligible children in child care. The second year (2023) included a series of expansion application processes to encourage growth in areas of greatest need in Toronto. Eligible families also experienced further fee reductions during this stage. The third and current year of implementation is marked by the introduction of the province's new cost-based funding guidelines, additional program changes, and continued fee reductions for eligible families beginning in 2025.

During the first three years of the CWELCC system, operating funding was calculated on a "revenue-replacement" model based on child care fees for children aged 0 to 5 in place on March 27, 2022 ("frozen fee"). The model provided funding to child care agencies to support a series of fee reductions for families, culminating in a 52.75 per cent reduction of the frozen fee. While some incremental funding was provided to support increasing costs facing operators over the first three years of implementation, the model was not always representative of the true costs of operating child care programs. The revenue-replacement approach also had disproportionate impacts across agencies. Agencies that had maintained lower fees prior to CWELCC or were already facing staffing and other cost pressures faced deficit positions or had to reduce service to maintain operations. Children's Services continued to maximize its funding flexibilities in accordance with provincial guidance to mitigate some of these pressures and to support the ongoing financial viability of child care agencies.

As of October 2024, approximately 87 per cent of licensed child care centres (Table 1) and 92 per cent of home child care agencies in Toronto have enrolled in the CWELCC system. Since the start of implementation in 2022, 8 licensed child care centres have withdrawn from the program.

Table 1: Summary of Child Care Centre Enrollment in the CWELCC System, October 2024

Auspice	Opted In	Opted Out	Total
Not-for-profit and Public	690	61	751
For-profit	233	92	325
Total	923	153	1,076

Progress of Canada-wide Early Learning and Child Care Expansion: Update

A key aspect of the ongoing implementation of the CWELCC agreement is the Ministry's direction to service system managers to develop Directed Growth Plans that ensure new CWELCC-funded spaces are prioritized in alignment with Access and Inclusion Frameworks. As of May 2023, the Province confirmed the five-year target for community and school-based spaces in Toronto (Table 2).

Table 2: Five-Year (2022 to 2026) CWELCC Space Targets for Toronto

Location Setting	Total Space Target
Community-based	13,627
School-based	4,550
Total	**18,177**

The approved space targets include funding for one-time "start-up grants" to offset some costs related to expansion and space creation, as well as ongoing funding to support operating costs under the new funding model. The amount of funding and eligibility criteria for start-up grants are not enough to create new centres, and as such is not classified as capital funding. Further, not-for-profit operators continue to face disproportionately high barriers to expansion, especially in accessing capital funding. For Toronto to meet the total space target in its Directed Growth Plan, capital investment and additional funding flexibility that recognizes the time it takes to create and license new spaces is needed.

The Province has also directed service system managers with less than 90 per cent of spaces already provided by not-for-profit operators to maintain the existing auspice ration by the end of 2026. For Toronto, this means that at least 80 per cent of new spaces approved for CWELCC-funding through the expansion process must be not-for-profit or public. While the Province and Association of Municipalities of Ontario have petitioned the Federal government to relax this requirement, a commitment to growth in the not-for-profit and public sectors has been endorsed by Council, along with a request that the Federal and Provincial governments increase capital investment to support this growth.[1]

Children's Services launched its first CWELCC expansion application window in 2023, which prioritized applications aligned to the Access and Inclusion Framework, auspice ratio considerations, and age and geographic equity of child care availability. In 2024, the division further refined its application criteria to prioritize Indigenous, Francophone, and not-for-profit agencies as well as for-profit agencies expanding in high priority wards. Since 2023, Children's Services has approved a total of 58 individual expansion applications, representing 1,728 spaces (Table 3).

Table 3: Number of applications and spaces from CWELCC-Funded Expansion since 2023

Not-for-profit		**For-profit**	
Number of Applications Approved	**Number of Spaces Approved**	**Number of Applications Approved**	**Number of Spaces Approved**
44	1,097	14	631

The division continues to review and approve submitted expansion applications in alignment with its priority framework, subject to funding availability. Successful not-for-profit applicants meeting the eligibility requirements are also being considered for a child care fee subsidy agreement, which will increase access to spaces for families in receipt of fee subsidies.

Updates to School-Based Expansion

School boards continue to play a significant role in supporting access to child care in Toronto, including in high inequity areas, which is consistent with the Province's Schools-First Child Care Capital Retrofit policy that directs construction of new child care spaces in schools where possible. Toronto's CWELCC space allocation included a target of 4,550 for approved and planned child care spaces in school-based capital projects.

On July 18, 2024, the Ministry sent a memo that announced the cancellation of 48 school-based child care capital projects that were previously approved between 2016 and 2020, but never constructed. This cancellation represents 3,083 child care spaces across both the Toronto District School Board and Toronto Catholic District School Board, in some of Toronto's highest needs communities. Currently, approximately 44 per cent of child care is operated in school in support of a seamless day for children in alignment with the Province's "Schools-First" model.

[1] City of Toronto. (2023). EC4.3 - Canada-Wide Early Learning and Child Care Agreement Implementation in Toronto – Update https://secure.toronto.ca/council/agenda-item.do?item=2023.EC4.3

In response to the Ministry's memo, a joint letter from the City and impacted School Boards requested that the cancellation be reversed, and incremental capital funding be provided to proceed with the impacted projects. Alternatively, the City and School Boards requested that the funding associated with the cancelled projects be provided in a pool to the School Boards or to the City of Toronto to prioritize projects in the highest needs areas. In August 2024, the Ministry responded in a memo indicating that spaces previously offered through the School Boards will instead be delivered as community-based spaces through licensed home child care, not-for-profit, and for-profit opportunities.

The Ministry has signaled their intent to keep the space creation target associated with the cancelled projects in Toronto and is currently reviewing updated Directed Growth Plan submissions from service system managers to determine whether changes will be made to previously approved space targets and associated funding levels. To date, the Ministry has not yet confirmed the number of spaces from the cancelled projects that will be transferred from schools to the community. Children's Services continues to seek opportunities to support the expansion of CWELCC-funded spaces by collaborating with both Federal and Provincial governments, School Board, and community-based partners. As part of this strategy, the division has increased outreach to existing licensees that have not yet opted to enroll in the CWELCC system as these represent opportunities to support the existing workforce, and to increase access to high quality, affordable spaces for families without the need for additional capital investment.

Growth and Expansion in Toronto's Licensed Child Care Sector: Update

The City of Toronto is committed to the expansion of high quality, affordable, and accessible child care.in Toronto's Licensed Child Care Growth Strategy ("Growth Strategy") was adopted by City Council in 2017 and set a 10-year vision for child care in Toronto. At the time of its release, the vision of the Growth Strategy was to create 30,000 more licensed spaces (for a total of 70,000 spaces) to serve 50 per cent of children aged 0-4 in Toronto by 2026.

The Growth Strategy is aspirational and calls on funding from all three orders of government to achieve the Growth Strategy vision. Children's Services relies on sustainable multi-year capital and operating funding to support increases in capacity, reduction of fees, improve wages, and increase the number of available fee subsidies.

By the end of 2023, the Toronto added 5,581 spaces for a total of 42,018 spaces for infants, toddlers, and preschool children in the centre-based licensed child care system (Table 4). These additional spaces represent approximately 18.6 per cent of the 10-year Growth Strategy expansion target of 30,000 new spaces and an increase in capacity of 15.3 per cent since 2017.

Table 4: Capital growth in infant, toddler, and preschool (ITP) spaces in licensed child-care centres, 2017-2023

	Number of ITP Spaces
Total Capacity, 2017	36,437
Total Growth (Capital Growth + Other Expansions)	5,581
Capital Growth	2,178
Other Expansions	3,403
Total Capacity, 2023	42,018

Note: The Growth Strategy targets spaces for children aged 0-4. This table includes centre-based child care spaces for infants, toddlers, and preschool age groups, which may include some children over the age of 4.

New Provincial Guidance and Funding Formula Beginning in 2025

On August 15, 2024, the Province issued a memo to the early years and child care sector to announce a new cost-based approach to CWELCC funding, as well as new program requirements that take effect on January 1, 2025. While the Province has released parts of the 2025 funding framework along with supporting resources, the complete set of Guidelines including information about funding for programs serving children aged 6 to 12, fee subsidies, professional development, and resources for families with extra support needs are not yet available.

The new funding formula transitions from a revenue replacement to a “cost-based” approach. Based on analysis of sector data, the province developed benchmarks to represent typical costs incurred by licensed child care centres and home child care agencies in Ontario, while also considering the differences in costs across various regions. There are four components that make up the benchmark for child care centres: program staffing, supervisor costs, accommodations costs, and all other operating costs. The components that make up the benchmark for home child care agencies are provider compensation, visitor compensation, and fixed and variable operating costs (see Appendix A for additional details on the province’s cost-based approach). As communicated by the Province, this new model is intended to promote transparency, predictability, and clarity in funding expectations for operators; be representative of the true costs of providing care to eligible age children; and to embed accountability for public funds through additional cost control measures.

By design, the benchmark allocations will fully cover the eligible costs of approximately 50 per cent of existing licensees, while the other 50 per cent will have their costs covered through a combination of the benchmark allocation and additional top-up funding.

In addition, the new funding formula includes an “allocation in lieu of profit/surplus” which is based on a combination of the benchmark and top-up allocations for each licensee. This amount is intended to recognize the risks of running a business and represents a guaranteed payment of approximately 8.4 per cent of the actual benchmark and top-up allocations. Along with treating this allocation as profit or surplus, licensees may use this amount to support larger scale capital repairs and maintenance, improve program quality, and compensation for the workforce.

The final component of the new cost-based formula is the “expected base fee revenue offset,” which is the amount of revenue licensees estimate they will collect from families, based on their operating plan. These revenues are deducted from the benchmark and top-up allocations. To account for vacancies that may occur within a program, provincial guidelines permit operators to reduce the estimated base fee revenue by 10 per cent for 2025 and 5 per cent in subsequent years. Licensees can apply these revenues to program costs and overall profit/surplus.

An overview of the total cost-based allocation for eligible child care centres under the new funding formula is provided below (Table 5). Once provided with an allocation, operators have the flexibility to apply funding towards any eligible cost (up to their maximum allocation), as the reconciliation process will be done globally rather than on a line-by-line basis.

Table 5: Total Cost-Based Funding Allocation (for Child Care Centres)

Formula Components
Benchmark Allocation (multiplied by Geographic Adjustment Factor)
Add: Applicable Top-Up Allocation
Add: Allocation in Lieu of Profit/Surplus (based on Benchmark and Top-Up)
Subtract: Expected Base Fee Revenue Offset (adjusted for Vacancy Rate)
Equals: Total Cost-Based Funding Allocation

Highlights of New Provincial Guidance

To support the transition to the new cost-based funding approach, the Province has introduced several program changes that will take effect on January 1, 2025. A summary of some of these changes is outlined below:

1. *Further parent fee reduction:* Families with children in programs enrolled in the CWELCC system will see base child care fees set at the lesser of the reduced frozen fee as of December 31, 2024 (to a minimum of $12 per day) or $22 per day. The Ministry of Education (“the Ministry”) consulted on proposed regulatory amendments under the *Child Care and Early Years Act, 2014* in relation to the additional fee reduction and is currently reviewing submissions. The Province will release information about the impacts of the new fee reduction to core service hours, extended optional care hours, and the parent contributions for families in receipt of a fee subsidy at a later date.

2. *Funding changes for non-CWELCC-enrolled licensees:* Service system managers may only use federal and provincial child care funding to support licensees participating in CWELCC and non-CWELCC-enrolled licensees serving children aged 6 to 12 exclusively. Non-CWELCC-enrolled-licensees providing services for children aged 0 to 5 will no longer be eligible to receive routine funding, such as general operating and wage enhancement grants and new fee subsidy funding. Fee subsidy funding for children enrolled prior to December 31, 2024, will continue until the benefitting child ages out of the program or leaves the licensee.

3. *Introduction of "local priorities funding":* Newly created "local priorities funding" allocations will support programs for children aged 6 to 12, as well as professional learning, fee subsidies, resourcing for families with extra support needs and sector capacity building for programs serving children aged 0 to 12.

4. *Additional financial accountability measures:* Given the significant investment of public funds, there are additional mechanisms to support the cost control framework required through the Ontario-CWELCC Agreement, including standardized financial reporting, cost and eligibility reviews by service system managers, and third-party compliance assessments for the top 5 per cent of child care centres or agencies exceeding the benchmark allocation. The Ministry's goal in requiring service system managers to complete these cost reviews is to gradually shift the cost of providing child care towards the standardized benchmark allocations, without negatively impacting quality.

Impacts to Child Care Sector

The challenges facing the sector are well known. As discussed at the March 27, 2024 CWELCC roundtable meeting held by Councillor Alejandra Bravo, Children's Services and child care sector partners, the key challenges and opportunities included clear and sustainable funding for the sector; the urgent need for capital funding and representative operating funding to support growth; adequate workforce compensation; and access and inclusion for vulnerable families.[2]

The province's new cost-based funding formula is designed to be representative of the typical operating costs for child care and structured to allow licensees to be able to predict their revenue streams for planning purposes. The formula is designed to standardize the experience of licensees across the province, encouraging service system managers to collaborate to ensure that implementation is more consistent across jurisdictions. In addition to the guaranteed allocation in lieu of profit/surplus, licensees will have more flexibility to determine how to use their funding allocations. Reconciliation of cost-based funding will be completed at a global level, rather than on a line-by-line basis. With this global approach to reconciliation, licensees will have the flexibility to support the diverse needs of the communities they serve, as well as to address over and under spending in various areas of their unique operations. While the

[2] CWELCC Implementation Roundtable. (2024). https://www.toronto.ca/legdocs/mmis/2024/ec/bgrd/backgroundfile-246817.pdf

reconciliation process is being simplified, allocations and recoveries will be calculated at the centre-level and licensees will not be able to shift funding between locations if operating more than one site.

The new funding formula does not provide any incremental funding for capital growth. Children's Services continues to request further details about the Federal Government's Early Learning and Child Care Infrastructure Fund, first announced in June 2023. This Fund is intended to help cover capital costs (e.g., real estate and building materials) specifically to support the growth of public and not-for-profit spaces.[3] Targeted investments to support not-for-profit operators are especially needed given the unique barriers as they face, such as challenges in securing financing that would support expansion of high-quality child care. It is not yet clear whether the Province's new model will provide sufficient operating funding through the cost-based allocation to support the ongoing expansion of high-quality, accessible, and inclusive programs.

The new cost-based funding formula likely will not address the significant workforce recruitment and retention challenges facing the child care sector. Children's Services and Council have made requests of the Ministry to collaborate with sector partners to develop a workforce strategy that supports recruitment and retention of staff in the early years and child care sector, which is also necessary for the current and future expansion of a high-quality child care system. Such a strategy should include investments to increase wages and benefits, comparable to positions in the public sector, the development of regional wage scales, and guidelines for sustained increases to wages and benefits that address cost of living and reflect training and education of staff. Substantial investments in the workforce are needed to create high quality learning environments, sustain the current system and which are contingent upon meeting the expansion targets set by the Province.

Unlike some other provincial jurisdictions, Ontario's new cost-based funding formula is not based on a formalized wage grid or standardized benefit plan. Similarly, the model does not incentivize the hiring of qualified staff beyond the level required in regulation. While full information about the 2025 funding guidelines is not yet available, preliminary analysis indicates that 2025 wages for Registered Early Childhood Educators working as program staff will have a wage floor of $24.86 per hour, while those working as supervisors or home child care visitors will have a wage floor of $25.86 per hour.

The benchmarks for program staff and supervisors do not represent a wage ceiling nor do they limit licensee discretion with respect to pay and benefits for staff. Children's Services will work closely with child care agencies already operating within benchmark allocations to prioritize incremental investments in pay and benefits for staff, as well as other quality improvements.

With CWELCC-based fee reductions and limited child care spaces in Toronto, competition for affordable child care is increasing. Research shows that as child care

[3] Government of Canada. (2023). https://www.pm.gc.ca/en/news/news-releases/2023/06/28/delivering-promise-high-quality-inclusive-and-affordable-child

affordability rises, demand for child care spaces rises as well.[4,5] This corresponds with recent reports from operators that waitlists at CWELCC-enrolled centres in Toronto have grown substantially since the launch of the CWELCC system in Ontario. In a 2024 survey of operators and supervisors of centre-based and home child care organizations (n=594) most respondents who had opted into CWELCC (77 per cent) reported somewhat or much longer waitlists since CWELCC was introduced. Comparatively, 65 per cent of operators who did not opt into CWELCC reported seeing no change in their waitlists, while 26 per cent reported shorter waitlists.[6] Though waitlist size is not a perfect proxy for demand, operator experience suggests that the available supply of affordable spaces is not sufficient to meet current demand.

Increasing demand is likely driven by new full fee paying families entering the system who can afford the reduced rates. Comparatively, the number of available fee-subsidies for eligible low-income children currently remains fixed at 30,700. As a result, there is growing concern that the most vulnerable families may experience reduced access to affordable child care.

The fee subsidy program remains the division's most effective way of addressing access to child care for low-income families. As of October 2024, approximately 74 per cent of families in receipt of fee subsidy pay less than $10 per day. Even at a daily rate of $10, many families in Toronto will not be able to access child care without financial support. Families in receipt of fee subsidy also largely come from equity-deserving communities. A 2023 survey of families in receipt of fee-subsidy (n=1,197) showed that most respondents self identified as women (88 per cent), from one-parent households (47 per cent), Black (30 per cent), and were born outside of Canada (75 per cent).[7] It is vital that these families have equitable access to child care spaces and as barrier-free an experience as their full-fee counterparts.

Discussions regarding service experience for families in receipt of fee subsidies must go alongside discussions about access to high quality child care. Research indicates that children in high-quality child care, as assessed by a quality rating and improvement system, experience greater developmental and early learning gains compared to those in low-quality child care programs.[8] Moreover, participation in high-quality child care can help reduce the gap in long-term education and labour market outcomes between children from higher- and lower-income backgrounds.[9] Quality is of central importance when discussing access to child care for families in receipt of fee subsidy given the

[4] Cleveland, Krashinsky, Colley and Avery-Nunez (2016). City of Toronto Licensed Child Care Demand and Affordability Study. https://www.toronto.ca/wp-content/uploads/2017/12/8d0a-Community-Services-and-Facilities-Toronto-Demand-Affordability-Study-2016.pdf

[5] Financial Accountability Office of Ontario (2022). Ministry of Education: Sending Plan Review. https://www.fao-on.org/web/default/files/publications/FA2210%20Education%3A%20Spending%20Plan%20Review/Ministry%20of%20Education%20-%20EN.pdf

[6] Children's Services (2024). Operator Survey. Internal report: unpublished

[7] Children's Services (2023). Client Survey Report. Internal report: unpublished

[8] Elicker, J., Gold, Z.S., Mishra, A.A., & Lane, S.F. (2022). Toddlers' Developmental Trajectories as a Function of QRIS Rated Child Care Quality. Child Youth Care Forum, 51, 633-660. https://doi.org/10.1007/s10566-021-09643-z

[9] Bustamante, A.S., Dearing, E., Zachrisson, H.D., & Vandell, D.L. (2022). Adult outcomes of sustained high-quality early child care and education: Do they vary by family income? Child Development, 93(2), 502-523. doi: 10.1111/cdev.13696

potential for high-quality early learning environments to serve as an effective intervention to improve long-term outcomes for children from low-income households. Children’s Services, with the Ontario Institute for Studies in Education at the University of Toronto, has developed the only Canadian validated measure of child care that is now been adopted by other provinces as part of their roll out of CWELCC.

2025 to 2029 Child Care and Early Years Service Plan: Update

Children’s Services is currently developing the 2025-2029 Early Years and Child Care Service Plan (“Service Plan”). The Service Plan is a Council-approved document that guides the planning and delivery of early learning and child care services. According to the *Child Care and Early Years Act, 2014*, service system managers are required to establish service plans every five years and consult and cooperate with stakeholders and partners in the development and implementation of this plan.

The Service Plan outlines strategic priorities over a five-year period while also serving as a resource for the sector, a means to communicate the values, role, and responsibilities of the service system manager. By reflecting the needs of community and sector stakeholders and partners, the Service Plan meaningfully guides the division’s work to advance sector priorities. Children’s Services also intends to include a public report to communicate progress on delivering the priorities in the Service Plan, including any initiatives that may require modification due to changing circumstances.

Stakeholder engagement, environmental scan, and additional research and data analysis have shaped the development of strategic priorities for the Service Plan thus far. Based on the research and consultation to date, sector stakeholders and partners have expressed a need to address the following priorities:

- Supporting a thriving early years and child care workforce;
- Expanding and sustaining high quality child care and early years services to accommodate the needs of families;
- Prioritize strategies that improve equitable access to child care and early years services;
- Centering inclusion in the child care and early years sector for children, families, and staff;
- Connecting families with essential family support services; and
- Advancing self-determination with Indigenous organizations and families in the early years and child care sector

It must be noted that the priority referencing Indigenous self-determination is pending review and Children’s Services will seek input and advice from Indigenous-led organizations serving children and families through the Aboriginal Advisory and Planning Committee.

Next Steps

The City of Toronto is continuing its progress towards realizing the vision set out in the five-year Ontario-CWELCC Agreement to support increased quality, accessibility, affordability, and inclusivity in the early learning licensed child care sector.

Though the complete 2025 Guidelines from the Province are not yet available, Children's Services continues to support the transition to the new cost-based funding model by engaging with its sector partners to provide information, answer questions, and create resources to support licensees in their planning decisions. While the unique nature of each licensee's operations will result in differing amounts of funding under the new formula, the division continues to emphasize the benefits of the model over the previous revenue-replacement approach. In approximately 50 per cent of cases, licensees will receive enough funding under the standard benchmark allocation to maintain existing operations, and in cases where they are operating below the benchmarks, can reinvest funding in the workforce and other quality improvements. In cases where the benchmark allocation is insufficient, the new funding formula is designed to support legacy cost structures by covering eligible costs through top-up funding. The division will analyze sector information through the submission of licensees' operating plans to determine the financial impacts of the Province's new funding approach, and to determine whether the cost-based model provides sufficient revenue streams to encourage growth.

In addition, the division continues to work with its partners to inform space expansion and inclusive programming priorities that recognize the needs of the City's vulnerable and diverse populations. By continuing to advocate for investments from all levels of government and leveraging School Board partnerships, third party development, and collaboration with other City divisions, Children's Services will maximize opportunities to support the creation of affordable, high-quality child care spaces for communities most in need in alignment with its Directed Growth Plan.

Children's Services is also in the process of finalizing strategic actions to include in the 2025-2029 Early Years and Child Care Service Plan. In 2025, Children's Services plans to host another Roundtable event to update the sector on proposed directions and actions in the Service Plan. Children's Services will report on the 2025-2029 Early Years and Child Care Service Plan in the Spring of 2025.

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SIGNATURE

Shanley McNamee
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ATTACHMENTS

Appendix A: A New Funding Approach in 2025

The Province designed the new cost-based funding formula to represent the typical costs of providing quality child care through standardized benchmarks, adjusted based on predefined geographic regions. Funding amounts are based on various aspects of a child care location's operating plan, including the number of operating spaces and service days by age group. In addition, whether the child care centre is operating within a public or community-based setting affects funding amounts.

There are four components to the benchmarks, representing operating costs for child care centres:

- Program Staffing: Pay and benefits for program staff serving eligible age groups and based on the program staffing ratio requirements outlined in the *Child Care and Early Years Act, 2014*. This component includes provisions for previously defined wage enhancement grants and mandatory benefit contributions such as Employment Insurance, Canada Pension Plan, and Employee Health Tax.
- Supervisor Costs: Pay and benefits for supervisory staff for eligible age groups and based on service days, rather than total number of children. This component includes provisions for previously defined wage enhancement grants and mandatory benefit contributions such as Employment Insurance, Canada Pension Plan, and Employee Health Tax.
- Accommodations: This component includes facility related costs such as rent, mortgage payments, maintenance, minor repairs, furniture, and equipment.
- Operations: This component captures all other operating costs not included in the other components and has both variable and fixed parts to reflect operating and licensed capacities respectively for eligible age groups. Examples of eligible costs include pay and benefits for non-program staff, food, utilities, insurance, training, professional fees, and program supplies.

Similarly, the components that make up the benchmarks for home child care agencies are as follows:

- Provider compensation: compensation for home child care providers
- Visitor compensation: compensation for home child care visitors
- Agency operations (variable) and agency operations (fixed): fixed and variable costs for eligible agencies (Such as accommodation and operating costs for head offices and pay and benefits for head office staff).

Together, the costs associated with each of the components listed above represent typical (or "benchmark") costs of operating child care in Ontario, with adjustments to acknowledge differences in costs across different parts of the province.

The Province also recognizes that an individual child care centre or home child care agency's existing cost structure may not align with the standardized benchmarks. To account for this, the new formula introduces the concept of "top-up" funding to support these legacy cost structures as they transition to the new cost-based funding model, where costs exceed benchmark allocations. The three types of top-up allocations are described in Table 1, which may apply to licensees in a calendar year.

Table 1: Summary of Top-Up Allocations

Type of Top-Up	Description
Legacy top-up (2025 only)	Applies to licensees that were enrolled in, or had applied to enrol in, the CWELCC system on or before August 14, 2024. Intended to prevent legacy centres and agencies from having to significantly change their operating models and cost structures to implement cost-based funding. The allocation is based on 2023 eligible cost structures and adjusted to account for escalation, changes to operating plans, and fixed costs. Funding for ongoing costs is adjusted to reflect increases between 2023 and 2025 to ensure eligible costs are covered.
Growth top-up	Applies to new centres or agencies, or existing licensees that expand within the calendar year. Intended to recognize that costs of growth may vary between geographic regions. This allocation does not replace previously defined “start-up” funding as part of the expansion application process under CWELCC.
Rolling top-up (2026 and beyond)	Applies to any centre or agency that received any type of top-up in the previous calendar year. Intended to ensure the support of cost structures year-over-year.

By design, the benchmark allocations will fully cover the eligible costs of approximately 50 per cent of existing licensees. The remaining 50 per cent will have their costs covered with the assistance of top-up allocations.

The new cost-based funding approach also includes an “allocation in lieu of profit/surplus” to recognize the risks of running a business. The allocation in lieu of profit/surplus represents a guaranteed payment of approximately 8.4 per cent of the actual benchmark and top-up allocations.

The last piece of the cost-based formula is the “expected base fee revenue offset,” which is deducted from the benchmark and top-up allocations.

The sum of the benchmark allocation, applicable top-up allocation, and allocation in lieu of profit/surplus minus the expected base fee revenue offset represents the total cost-based funding allocation that will be granted to each eligible licensee.