TORONTO

STAFF REPORT
ACTION REQUIRED

Transitional Issues Impacting Toronto's Child Care System and Recommended Actions for Mitigation

Date:	October 24, 2011
To:	Community Development and Recreation Committee
From:	General Manager, Children's Services
Wards:	All
Reference Number:	13922 CDR8

SUMMARY

This report responds to the May 27, 2011 direction from the Community Development and Recreation Committee that Children's Services report to Council prior to the conclusion of the 2012 Operating Budget deliberations with a detailed analysis of the impact of the Province's Full Day Early Learning Kindergarten (FDELK) program on Toronto's child care system.

Children's Services has completed an extensive analysis that, among other things, forecasts service levels and the availability of child care spaces by age group at the time of full implementation of FDELK in 2014. Overall, the analysis shows an expected decrease in the supply of child care spaces for Junior Kindergarten (JK) and Senior Kindergarten (SK) children in child care as 4 and 5 year olds enrol in FDELK and a corresponding interest by operators in converting these vacated spaces into care for younger infants and toddlers.

Toronto's child care system is the largest in Ontario and the second largest in Canada. It services 56,000 children in licensed child care, of which 24,000 receive a fee subsidy to assist with the cost of child care fees. There are 924 licensed child care centres in Toronto, with 40% of the centres located in elementary schools. In addition, there are 20 licensed home child care agencies providing care in homes across the City. It is estimated that there are 13,000 children JK/SK aged in licensed child care who will move to FDELK incrementally over the next 3 years. Approximately 7,000 of these children will be in receipt of a fee subsidy. The impact of FDELK on a system as large as Toronto's is material. In order to effectively manage the transition, the City requires transitional, operating and capital resources from the Province of Ontario, as well as legislative and regulatory amendments to the Day Nurseries Act.

This report identifies strategies for addressing concerns and facilitating the transition to a high quality early learning and care system that is accessible to all families in Toronto.

RECOMMENDATIONS

The General Manager, Children's Services recommends that:

1. City Council communicate to the Premier of Ontario and the Minister of Education the urgent need for development of a child care stabilization and transition plan that ensures the availability of a sustainable, high quality and affordable child care system for all families.

2. City Council reaffirm its request of January 26 and 27, 2010 that the Province of Ontario provide all of the necessary tools and resources necessary to support the transition to an Early Learning System and to ensure that the child care component of this system remains stable and sustainable. These tools and resources should include financial, legislative and policy supports that address:
   i. the regulatory changes required to ensure efficiencies in child care operations that focus on younger children,
   ii. simplified and flexible funding formulas that enable base funding of child care programs and that ensure affordability for all families,
   iii. transitional and operating funding to ensure that service levels are maintained during and following the transition to FDELK,
   iv. capital funding for child care centres located within schools,
   v. capital funding to support the reconfiguration of child care programs outside of schools so that they can address the needs of younger children.

3. City Council also reaffirm its previous requests to the Province of Ontario that the provincial funding formula provide sufficient resources to maintain existing service levels of 24,000 child care subsidies, recognize cost of living and other legitimate increases in operating costs, and ensure program quality and adequate qualified staffing.

4. The Community Development and Recreation Committee refer this report to the Mayor’s Child Care Task Force to inform its deliberations.

5. This report proceed to Council with the report from the Mayor’s Task Force on Child Care in the new year.

FINANCIAL IMPACT

The implementation of FDELK has resulted in significant financial pressures for the child care system as 4 and 5 year olds move from this system into the FDELK Program. In order to sustain the current system, Children's Services estimates that it requires a one-time capital funding allocation of $13.5 million to retrofit child care centres not located in schools and an additional $13.9 million one-time capital funding allocation for child care in schools for a system-wide total of $27.4 million. This funding will be required to retro-fit existing centres to accommodate the needs of younger children.

An additional $27.0 million in annual funding is required to address the transition and operational needs of the child care system as it increases services to younger age groups. Operational/transitional funding is required to address the increased cost of delivering care to younger children, sustain programs as 4 and 5 year olds incrementally leave the system and support centres through reconfiguration. To date, the Province has committed an additional $1.9 million in operating/transitional resources, $0.729 million in new JK/SK fee subsidies for extended day, and $0.332 million for capital upgrades. These funding adjustments have been included in Children's Services Operating Budget, with the capital upgrades included in the Health and Safety program.

The City is required by legislation to cost share fee subsidies for child care with the Province. The cost of providing child care is subject to annual inflation. The Province has capped its funding at 1996 levels, therefore creating a shortfall in the base of approximately $20.0 million, which is equivalent to approximately 2,000 subsidized spaces. This shortfall represents a historical funding gap, as the Province does not adjust its annual funding to reflect the increased cost of care.

Children's Services has been able to maintain the existing service levels of 24,000 subsidies through annual draws from the Child Care Expansion Reserve Fund and the Children's Services base budget. With the balance in the reserve fund at the end of 2010 at $45.1 million and with the budgeted 2011 draw of $13.9 million, Children's Services will have approximately $31 million in the reserve to fund service in 2012. Without additional funding, the Child Care Expansion Reserve fund will be depleted in September 2013.

Should the Province fail to provide additional resources to maintain the existing service level of 24,000 child care fee subsidies, there will be a need to gradually reduce subsidized spaces by 2,000 beginning in September 2012 (equivalent to $20,000 million). Further reductions of approximately 600 subsidized spaces per annum (equivalent to $6 million) will be required until the annual provincial funding contributions are indexed to inflation.

Discussions with the Ministry of Education are ongoing at the staff level on funding requirements and the need for more flexible funding models. Indexing current funding would extend the life of the Child Care Expansion Reserve Fund to 2016, thus preserving the 2,000 spaces.

The City is awaiting the confirmation of 2012 FDELK funding from the Province. All funds received will be allocated to support current service levels and to reduce the impacts of FDELK on the system.

The Deputy City Manager and Chief Financial Officer have reviewed this report and agree with the financial impact information.

EQUITY IMPACT

Equity has been a guiding principle in all four Children's Services service plans, including the most recently approved “Toronto's 2010-2014 Child Care Service Plan.” The principles of the service plan include service access based on age and geographic equity in the allocation of subsidies, and recognition that child care services provide developmentally appropriate, beneficial care for children, including those with special needs. Toronto supports an integrated approach to early learning and care that provides increased access to learning opportunities that are essential for optimal human development and respond to and supports the whole family. The City's role in subsidy management ensures equitable access to fee subsidies, allowing parents to participate more fully in the workforce. In the re-balancing of the child care system following the implementation of the early learning program, Toronto Children's Services will ensure service access based on equity. A publicly funded early learning program, supported by a strong child care sector, has obvious benefits on child outcomes while supporting families in or entering the workforce or pursuing educational opportunities.

DECISION HISTORY

Council at its meeting of July 12, 13, and 14, 2010 adopted a staff report on the status of provincial implementation of FDELK and received a appended report which explored alternative funding models for child care in Toronto and Ontario. Council requested that the General Manager further develop the funding models contained in the report and undertake discussions with Provincial officials on the various options. Council also directed that the report be sent to provincial and federal leaders and their parties.

Council at its meeting of July 6, 7 and 8, 2010 adopted a status report on implementing early learning and base funding pressures and requested that the General Manager, Children’s Services, report to Council on actions outlined in recommendations contained within the report. The report addressed, among other things, the need to explore more flexible funding models for child care.
http://www.toronto.ca/children/report/councilreport_8july2010.htm

Council at its meeting May 11 and 12, 2010 unanimously approved the Toronto Child Care Service Plan. The plan supports the development of child and family centres as part of an integrated system of services and directs Children’s Services to investigate alternative funding models to sustain child care in Toronto.
http://www.toronto.ca/children/service_plan.htm
http://www.toronto.ca/children/report/councilreport_12may2010.htm
Council at its meeting of January 26 and 27, 2010, approved a staff report on the Implementation of the Province's Early Learning Program and Toronto's Child Care Funding Risks and Pressures.

http://www.toronto.ca/children/report/councilreport_27jan2010.htm

Through the above documents, Council supported the full vision for early learning and care as outlined in the Provincial Report *"With Our Best Future in Mind; Implementing Early Learning in Ontario"*. This vision articulates a strong municipal service planning and management role during and following the transition to a new early learning system. Council directed City staff to establish a strong working relationship with the Ministry of Education, with a view to addressing base funding pressures, developing Toronto-specific solutions to implement FDELK, developing a new funding model for child care and securing Day Nurseries Act changes that more accurately reflect the needs of the new early learning and child care system that includes both FDELK and child care.

ISSUE BACKGROUND

The Provincial government received the report *"With Our Best Future in Mind; Implementing Early Learning in Ontario"* submitted by the Special Advisor on Early Learning in 2009. The report provided a comprehensive action plan for developing a seamless and integrated system to support children from birth to 12 years and their families. The plan included FDELK with a corresponding comprehensive child and family service system with child care as the foundation. The Provincial Government identified FDELK as a policy priority in 2009. As a result, implementation of FDELK is proceeding in the absence of a corresponding plan to simultaneously mitigate the program's impact on the existing child care service system. Necessary legislative changes and significant funding of both capital and operating requirements have been put in place by the Province to ensure the success of the program. In contrast, minimal policy direction and funding has been provided to address the needs of the child care sector. In addition, funding for child care remains capped, while funding for the FDELK is indexed to meet inflation and other obligations.

Why FDELK Impacts Child Care

The Provincial government recently implemented FDELK in a way that provides a publicly-funded full-day kindergarten program for 4 and 5 year olds. By September 2014, all elementary schools in Ontario will offer FDELK to all children 4 and 5 years of age. As a result, the existing child care system, which currently delivers licensed early learning and care opportunities to children from birth to 12 years of age, will no longer provide care for 4 and 5 year olds. While this transformation is positive for families and children, it can not be effectively implemented without supports to child care. This move of 4 and 5 year olds from child care to board of education based programs creates a loss of revenue required by operators to cover annual operating costs.

The child care system has the ability to respond and transform to a new early learning system of services that better meet the needs of younger children. A robust child care policy, similar in magnitude to the policy established by the Province to ensure the success of FDELK, is required to ensure that families have access to the supports required and that investments in younger ages are made to ensure a seamless continuum of supports for families who participate or want to participate in the workplace or to attend school.

In order to assess the impact of FDELK on the child care sector, to quantify the amount and types of investments required to stabilize and sustain the child care system, and to have the detailed information required to prepare the necessary community transition plans, Children's Services has completed an analysis at a City and ward level. This analysis assessed the number of licensed spaces that would be available to both full-fee paying parents and parents in receipt of fee subsidies at full implementation of FDELK. In addition, an analysis to determine the degree to which families who were eligible for a fee subsidy would be able to access a licensed physical space within their ward of residence at the time of full implementation was evaluated.

The analysis again confirmed that the move of the 4 and 5 year olds from the licensed child care system, without appropriate supporting or transitional resources, results in the destabilization of the system and directly impacts availability of licensed childcare to parents and the affordability of care should spaces be available.

The risk to maintaining current service capacity can be attributed to the following impacts:

<u>Loss of Revenue:</u> Child care budgets are based on the licensed operating capacity of individual child care centres. The move of 4 and 5 year olds to FDELK results in vacancies within many of these centres and a corresponding loss of revenue. Unless this loss can be off-set by increased fees, increased service to younger children or transitional resources, centres will become destabilized. Increased fees will create affordability issues for many families not eligible for subsidies. These families may begin to see licensed child care as an option that is not available to them. Similarly, if subsidy payments are increased to address higher costs of care, the number of subsidies available in the system will shrink, a significant concern with more that 20,000 eligible families on the subsidy wait list.

Children's Services previously reported to Council that Toronto requires $27.0 million from the Province to sustain the current child care system as 4 and 5 year olds move to FDELK. To date, the City has received $1.9 million in new 100% provincially-funded fee subsidies. Based on the previously-announced province-wide funding in this category, the City expects to receive $11.7 million over the five years of implementation, leaving a shortfall of $15.3 million. Children's Services previously reported the funding required and the projected shortfall to Council in June 2010 and July 2011.

<u>Parent Fees:</u> Fees generated by 4 and 5 year olds in a child care centre off-set a portion of the costs associated with infants and toddlers whose care is more expensive as a result of legislative staffing and space requirements. It is projected that parent fees may increase by as much as 10% for each age group remaining in child care as a result of the revenue loss noted in the previous section. The current provincial funding model cannot address the impact of the projected fee increase which, if not addressed, will make child care an unaffordable option for many families. Previous Council reports have identified the need for the Province to develop a new, more flexible funding model that addresses the new requirements of a transformed early learning and care system and that ensures affordability for all families.

Access to Child Care: It is likely that some child care programs will close as a result of 4 and 5 year olds leaving the system if they do not have the physical capacity to meet the needs of younger children or if there is not a new funding formula to address both affordability and fee subsidy requirements. The majority of child care centres are reliant on public funding to address capital requirements. Previous Council reports (June 2010 and July 2011) have identified that the system requires approximately $30 million dollars in capital to address the needs of existing operators. The ward analysis enabled staff to refine this estimate. Child care programs located outside of schools will require $13.5 million if they are to retrofit to meet the needs of younger children. Centres located in schools will require $13.9 million, for an estimated total of $27.4 million. At the time of full implementation, Toronto is expected to receive $2.8 million in capital funding from the Province, leaving a capital funding shortfall of $24.6 million. If this short fall is not addressed, a significant number of centres are likely to close for financial viability reasons. It should be noted that additional capital is required if child care is to be included in new school construction or expansion projects.

Toronto is reaching a critical point in the implementation of FDELK. Phase 3, beginning in September 2012, will see 49% of kindergarten children having access to a full-day program. The number of schools providing FDELK in Toronto is as follows:
Phase 1 (2010-11), 101 schools
Phase 2 (2011-12), additional 29 schools
Phase 3 (2012-13), additional 146 schools
Phase 4 (2013-14), additional 156 schools
Phase 5 (2014-2015), additional 146 schools

Phase 1 and 2 of FDELK implementation has had a minimal impact on child care as school boards' strategically placed FDELK in schools where there would be the least impact on child care centres and where minimal capital would be required. In Phase 3, most centres will be impacted in some way creating anxiety in operators and parents regarding the future security of child centre.

FDELK also includes a cost recovery before and after school program, where 20 or more families request the program. Initially, the province required school boards to directly operate this program in order to provide a seamless day for 4 and 5 year olds. This year, the government amended the legislation to allow school boards the flexibility to seek "third party operators" to provide the program on behalf of the various boards. School boards directly operating the before and after school program are not required to be licensed under the Day Nurseries Act (DNA). Operating requirements and standards are provided by the Ministry of Education. Third party operators are required to be licensed under the DNA. To date, there are four third party operators in Toronto District School Board schools. Fees range from $28.00 to $30.00 for instructional days and $35.00 to $39.00 for holidays.

Determining the Impact

To properly understand and mitigate the impacts of FDELK, Children's Services has undertaken a comprehensive analysis of the child care system to determine what it could look like in 2014, full implementation, with and without the necessary policy, transitional and capital resources. This analysis will guide, among other things, investments that will be made to sustain a system of high quality licensed care for children from birth to junior kindergarten and from 6 to 12 years of age. Resources available for investment include Provincial capital and transitional allocations, savings related to 4 and 5 year olds leaving the child care system, and a portion of the City's $1 million allocation for minor capital contained in the Children's Services operating budget. Council authorized expansion of the eligibility criteria for minor capital to include transitional costs related to an early learning system as part of its 2011 budget process.

Savings from 4 and 5 years olds leaving the child care system are generated as a result of FDELK being a publicly-funded program with an extended day component that is offered on a full-cost recovery basis. Fee subsidies that supported a full day of care for children are now required to cover less than 5 hours of care in an extended day program. Similarly, grants to off-set salary costs associated with care for 4 and 5 years olds in child care can be reinvested in younger age groups as a result of the full cost recovery nature of the extended day program.

As a result of the incremental implementation of FDELK, the reinvestment is slow and insufficient to address changes in a system the size of Toronto. Changes to the legislation and policy regarding third party operators reduces funding available for reinvestment as these operators must adhere to the Day Nurseries Act, which dictates a lower staff/child ratio than would be required if these programs were directly operated by school boards.

The analysis process, which is outlined in detail in Appendix A, has two components. First it provides information on the number of centres at financial risk and the corresponding reduction in service capacity should these centres be required to close as a result of insufficient capital and transitional resources. Second, it reviews the business plans of operators to determine those who have the physical capacity to convert JK/SK space into space for younger children. Operators were also asked to identify if they had resources to contribute to such transitions. Overlaying these two components illustrates the areas of the City most at risk and the resources required to maintain service capacity.

For the purposes of the analysis, child care centres were identified as being at risk when they projected a revenue loss of 25% or more as children aged 4- and 5- transition into the school system; and at even greater risk if the revenue loss is coupled with 50% or more of children at the centre (all age groups) being subsidized.

COMMENTS

Child Care System at 2014

The child care system is responding, as predicted, to the transformation of child care into a larger early learning and care system. The ward analysis confirms that when 4 and 5 year olds leave licensed child care, many child care centres are planning to reduce services to this age group. Overall, licensed spaces in the child care system would reduce by 23% as a result of 4 and 5 year olds leaving if no other action is taken.

This is a necessary reduction if the child care sector is to reconfigure into a strong, high quality licensed early learning system for the younger cohort of infant, toddler and preschoolers (2.5 yrs to 3.8 yrs). With adequate resources, the system can remain viable by increasing access for families seeking care for these age groups. Children's Services currently has 4,707 infants and 2,100 toddlers waiting for a subsidy and a corresponding licensed child care space. Converting space vacated by kindergarten children to space for younger children would reduce the percentage of licensed spaces lost from 23% to 6%. Such a reduction is expected given the increased costs associated with caring for younger age groups. It should be noted that the stability of the system and its ability to make this transformation is contingent upon sufficient provincial capital resources to support operators in the one time construction costs.

Appendix B illustrates the City wards that have the most child care centres deemed to be at risk. Based on a potential revenue loss of 25% or more, 400 centres (43% of the system) were deemed to be at some risk of closure. Based on a revenue loss of 25% or more and where 50% or more children (all age groups) receive a fee subsidy in a centre, 159 centres (17% of the system) were deemed to be at an even higher risk of closure. Centres have many fixed overhead and operating costs and little opportunity to reduce costs other than to reduce staff associated with the 4 and 5 year olds as legislated ratios permit. Centres are at financial risk when their revenue is reduced but the operating costs remain largely the same.

The table below illustrates:

(1) the loss of licensed spaces if all centres deemed at risk where to close; and
(2) opportunities and spaces within the child care system if funding was made available to address transformations.

	September 2011	September 2014	
	Current Capacity	Scenario 1 (closures)	Scenario 2 (with reconfigurations)
Infant	2,664	↓ 2,326 12.7%	↑ 3,257 22.3%
Toddler	6,664	↓ 5,690 14.6%	↑ 8,330 25%
Preschool	28,029	↓ 22,057 21.3%	↓ 22,995 18%

This chart clearly demonstrates the ability of the system to respond if properly resourced. If resources are not secured, however, families will not have adequate access to child care.

The second component of the ward analysis looked at access to a licensed child care space if the projected closures occur. Appendix C (Scenario 1) presents this data on a ward basis and highlights that in most wards families with infants will have access to a fee subsidy but not a corresponding licensed infant space, meaning that the demand for space will exceed the supply.

For example, insufficient capacity to accommodate infants would occur when a ward has a fee subsidy target of 32 but only 10 infant spaces. If there was sufficient funding to address operators' business plans, the number of available spaces would increase and the number of centres at risk decrease. It should be noted that demand for space exceeds the number of fee subsidies. Parents not eligible for subsidy also seek to enter the system as do the many families on the fee subsidy waitlist.

A similar analysis was completed to determine whether the system has the capacity to meet the fee subsidies target for toddlers in each ward, Scenario 2 - toddlers. With sufficient funding the City could see an increase in 593 licensed infant spaces and an increase of 1,666 licensed toddler spaces. Taking the operators' plans into account and comparing the plans to the "at risk" analysis demonstrates a new and more hopeful vision for the child care system. For those wards that remain underserved after reconfigurations, additional capital will be required to construct new child care facilities, perhaps as part of the child & family centre model.

Children's Services has forecasted service levels in 2014 for each ward in the City. This analysis summarizes the impacts and opportunities available in each ward. Individual ward forecasts are available on Children's Services website www.toronto..ca/children.

The Plan to Transition

This analysis demonstrates the need for the City to work with the community, the boards of education and the Provincial government to develop a comprehensive and coordinated plan to stabilize and transition the child care system. As service system manager, Children's Services takes a broad systems approach to planning. The goal is to ensure families have access to the child care they require to participate in the workforce and or to access education opportunities. Investments must target areas where access is most impacted. Child care service providers need to know what resources and funding is available in order to confirm plans and assure the future viability of their programs. Operators must take action to plan for sector changes. The ward analysis report summarizes the impact and opportunities, providing communities with the information needed to make decisions on their own capacity and future sustainability. Children's Services will be working with operators to discuss opportunities for maintaining service levels and to assist in the development of transition plans.

Recently, Children's Services made the $0.330 provincial capital funding available for projects that were small, $50,000 or less. A total of 31 applications were received for a total funding request of close to $1 million. Approval of the applications will be made using the ward analysis and the Child Care Service Plan.

Conclusion:
It is anticipated that as FDELK becomes more mature and available, more parents will indicate their desire to have before and after programs provided at the school. As a result, each year there will be an increase in the before and after school programs delivered by third party operators. As the number of third party operators increase, there is a corresponding impact on the stability of the system as early childhood educators move from full time to part-time employment. The quality and stability of these programs will continue to be monitored through the transition.

Children's Services continues to communicate to the Province the unique needs of the City of Toronto. The division also continues to provide its expertise and support to the Province and to school boards through the transition to a larger Early Learning and Care System. Toronto currently has a demonstrated need for more licensed child care as the waitlist continues to grow. It is critical to secure and build a strong foundation so that families currently accessing child care are assured that access will continue. The greatest need for Provincial resources and supports is prior to September 2012, when the implementation of FDELK will have far reaching effects on the child care system.

Children's Services has also identified non-financial actions that will help to stabilize the child care system. There are policy, regulatory and legislative changes that will provide some relief. These include creation of a new funding formula, revised business practices, policy changes, and short- and long-term changes to the Day Nurseries Act that better align it with a newly transformed early learning system.

To assist the child care system transition, Children's Services is holding evening community meetings for operators and boards of directors of child care. The findings of the analysis will be presented. Service levels and opportunities will be discussed so operators can determine the best way to respond to the changing child care system. At a more local ward level, communities will develop plans that will address required service levels in the ward. It is expected that the community plans will inform the investment strategy and facilitate transition to a new system of early learning can be realized.

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ATTACHMENTS

APPENDIX A - THE WARD ANALYSIS PROCESS
APPENDIX B - PERCENTAGE OF CENTRES AT RISK - 2014
APPENDIX C - SERVICE LEVEL 2014