



## STAFF REPORT ACTION REQUIRED

### Toronto Child Care Funding Model

<b>Date:</b>	May 6, 2015
<b>To:</b>	Community Development and Recreation Committee
<b>From:</b>	General Manager, Children's Services
<b>Wards:</b>	All
<b>Reference Number:</b>	

### SUMMARY

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This report seeks approval of a streamlined model for funding licensed child care service providers in the City of Toronto. The model will apply to all licensed child care providers with a purchase of service or other contract with the City. Existing funding for Family Support Programs, Special Needs Resourcing and Home Child Care remains in place. It does not apply to those entering into a funding agreement with Toronto for the sole purpose of accessing the Province's Wage Enhancement program. The proposed model is in response to the 2012 provincial Child Care Funding Framework that changed the way in which municipalities are funded by the Province for child care.

The proposed funding model is consistent with directions included in the Council-approved Children's Services Service Plan (2015-2019) and with funding model principles approved by Council in 2013. It provides direction for future system investments and will not result in any existing child care service providers receiving a reduction in existing base funding. The model's development involved extensive engagement with children, families, service providers, community partners, and other stakeholders.

No changes are proposed to the City's existing child care fee subsidy system.

### RECOMMENDATIONS

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The General Manager, Children's Services, recommends that:

- 1) City Council establish a General Operating Grant as described in this report to support eligible licensed child care service providers and to replace previous provincial wage-related grant programs; and

- 2) City Council approve the funding model implementation framework that requires service providers, as a condition of General Operating Grant funding, to comply with the Children's Services funding guidelines and policies, including adherence to standard business requirements, elimination of wait list fees and participation in the Assessment for Quality Improvement (AQI) program.

## **Financial Impact**

Included in the 2015 approved operating budget for Children's Services is funding of \$54.6 million in wage-related grant programs used to provide financial support to licensed child care operators in the city through wage-related grants intended to reduce fees for families.

Since 2013, the Division has worked with the Province, other municipal child care service managers and the local community to develop a new funding model that will provide a General Operating Grant to replace the existing wage-related grant programs for child care service providers and that will allow providers flexibility to address their specific business and service needs.

There are no financial implications in 2015 resulting from required system changes to deliver the new child care funding model. Anticipating the need for system growth, and based on the 2015-19 Service Plan projections, 1,551 new spaces will be required by the end of 2019. It is estimated that the financial implications of this growth will require a total investment of \$2.6 million over the next 4 years. Future investment will be contingent upon availability of new provincial and municipal resources.

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

## **Equity Impact Statement**

This Funding Model aligns with the 2015-2019 Child Care Service Plan and supports access, affordability and quality child care for families across Toronto. To ensure that the needs of different communities are captured, consultations were held with diverse stakeholder groups, including Aboriginal and French-language families and service providers.

In the long term, the model strives for equitable distribution of base funding across the city to ensure that all families in the system benefit from the investment.

## **DECISION HISTORY**

City Council at its meeting of January 15 and 16, 2013 requested that the General Manager, Children's Services, report to City Council, through the Community Development and Recreation Committee in 2013 on impacts of the new Provincial funding formula on Toronto's child care system.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX27.1>

At its meeting of July 16, 17, 18 and 19, 2013 City Council endorsed the Toronto Child Care Funding Model report and proposed principles to guide the development of the Funding Model. The principles were amended to add "parent affordability"; and a new principle that expressly addresses the need to keep child care fees affordable. Refer to Appendix A for the amended list of Toronto Child Care Funding Model principles.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.CD22.5>

City Council at its meeting of April 1, 2 and 3, 2014, adopted the findings from the *Let's Talk Child Care* Campaign which contained parent feedback about child care in Toronto. These findings were used to inform the development of the new Child Care Funding Model and the Children's Services 2015-2019 Service Plan.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.CD27.2>

## **ISSUE BACKGROUND**

Over the years, the City of Toronto has identified the need for a new way of funding child care in Ontario, recognizing the impacts of inflationary pressures, Full-Day Kindergarten (FDK), the inequitable distribution of existing base funding across the system, and the need for increased flexibility for municipalities to allocate resources in ways that best addresses local early learning and child care requirements.

In 2012, the Ministry of Education established a working group under the Memorandum of Understanding between the Association of Municipalities of Ontario (AMO) and the Province of Ontario and the Toronto-Ontario Cooperation and Consultation Agreement (TOCCA) to look at how child care in Ontario should be funded. With advice from the working group, and in consideration of stakeholder feedback, a new funding framework (the method of allocating provincial funds for children's services among municipalities) was developed and announced later that year. This framework provides both increased flexibility to municipalities to allocate funding based on local needs and simplified reporting requirements.

Generally, the City supports licensed child care through two types of funding: fee subsidies to families and base funding to service providers. While fee subsidies directly support families who are eligible for support, base funding supports the overall child care system through dedicated funding to enable agencies to improve compensation for child care workers and reduce fees for all families enrolled in the centre. Currently, the City supports base funding in licensed child care through the administration of various provincial and City grant programs such as wage subsidy and school occupancy grants.

For the purpose of this report, base funding refers only to the provincial wage-related grants programs including wage subsidy, wage improvement and pay equity grants. With the exception of pay equity, these grants ceased to exist as a result on the new and simplified provincial funding framework. These programs represent \$54.6 million in annual funding, cost-shared 80-20 between the Province and the City.

On January 20, 2015 the Province of Ontario announced a new Child Care Wage Enhancement program to be administered by Consolidated Municipal Service Managers (CMSMs). This program will begin in 2015 and is outside of the Toronto Child Care Funding Model.

Funding model options considered how to best distribute wage-related base funding to licensed group service providers. Two additional base funding programs, school occupancy and minor health & safety capital grants, are City-funded and not impacted by the new funding model.

The three existing wage-related grants programs were developed and introduced by the Province over a number of years and are administered by the City. They are complex and expensive to administer. These programs did not factor in system growth and did not accept new applications, so funding varies significantly across service providers and in the benefit to families. For example, with base funding support, parents of infants could receive no benefit or an annual fee reduction of up to \$7,260 per year depending on the operator's inclusion in previous programs.

A new funding model provides the City with an opportunity, in partnership with stakeholders and other experts, to look at how child care dollars can be allocated to better meet local needs in a sustainable and equitable way.

## **COMMENTS**

### **Stakeholder Engagement**

The Children's Services Division undertook a two-year engagement process and established three special-purpose groups to guide development of the new funding model. These included:

- an Advisory Committee of economists, academics, researchers and sector experts to provide advice from a systems perspective;
- a Stakeholder Reference Group that represents child care service providers; and
- a GTA Modeling Working Group made up of children's services staff from other municipalities, who share research, modelling and analysis.

Additionally, the division conducted consultation sessions with the Toronto Child and Family Network Steering Committee and planning committee representatives; Aboriginal and Francophone committees; District Child Care Advisory Committees (made up of child care service providers); and Children's Services staff. At City Council's request, Toronto parents were invited to a Parent Summit in 2013 and participated in an online survey through the *Let's Talk Child Care* Campaign to identify issues that were important to them. A second summit and survey was conducted in 2014.

Through the stakeholder engagement, the Division heard from child care service experts that the new funding model should align with the provincial modernization strategy, and that it must continue to support the most vulnerable children and families. Experts also stated that the child care system must increase service to younger age groups.

Child care service providers stated that they need support from the City in managing the many changes being implemented in recent years. To be viable, child care operators identified the importance of having full enrollment, especially in programs for infants and toddlers.

Service providers support base funding as it provides predictable, stable funding and helps address vacancy issues, especially for younger age children where the staff-to-child ratios are high and any vacancy impacts their financial viability. Service providers noted that those providers that currently pay reasonable salaries for child care workers should be acknowledged under the new model, and that parent fees need to reasonably reflect the true cost of care. Service providers also stated that any new funding model should recognize the early learning and care profession and the importance of paying reasonable wages to attract and retain professional staff.

Toronto families indicated that there is not enough licensed child care available for younger age groups, and that child care fees for younger age groups are too expensive. Families need year-round care for children and more access to before and after school care for school age children. Parents' preference for care for children aged four to 12 is that it be located in schools. Families stated that paying multiple waitlist fees for a child care space is a barrier to accessing care and that the fee subsidy waitlist is too long. Finally, parents acknowledge that child care workers are important to delivering quality services.

### **Funding Model Process**

The Division conducted an environmental scan of other provincial funding models and compared them to the City's existing child care system.

Based on input from the various advisory committees, a continuum of options was assessed, including:

- reallocating base funding to create new fee subsidy spaces for younger age groups;
- redistributing base funding to all eligible service providers serving younger age groups;
- setting fee limits for younger age groups; and
- providing an occupancy grant to service providers with younger age groups that do not benefit from the City's school occupancy grants, while also increasing the number of fee subsidies.

The impact of redistributing the wage-related grant programs provided to service providers was assessed under each of the above scenarios. Each of the four options was tested against the approved principles, stakeholders were consulted and feedback documented.

Based on feedback, a fifth option emerged that addressed the issues and concerns expressed by Toronto families, child care service providers and experts. A summary of the analysis of each option is in Appendix B.

### **Recommended Funding Model**

The Division recommends establishing a General Operating Grant to replace existing wage-related grant programs for child care service providers. Under this model, all eligible service providers will receive a General Operating Grant that can be used to support child care workers' salaries, offset operating expenses and improve affordability for families. A single, consolidated grant will allow service providers the flexibility to address their specific service and business needs within the funding model implementation guidelines. No service providers will receive a reduction in existing base funding unless they reduce operating capacity.

The General Operating Grant will be calculated based on a service provider's programs and services. Those serving children ages four to twelve will continue to receive their current base funding amount. Eligibility will be monitored and adjusted should an agency's service offering change.

For service providers serving children from birth to four years of age, the City will use an updated formula that recognizes legislated staffing levels for different age groups. This approach considers the cost of spaces and recognizes that the primary cost driver in operating a child care program is staffing. Staffing for younger age groups is at a higher cost due to required ratios. For example, current staff-to-child ratios range from 3:10 ratio for a group of 10 infants (birth to 1.5 years) to 1:15 ratio for school age children (ages six to 12 years old).

The General Operating Grant, awards higher funding to those serving younger aged children, thus reducing the financial risk to service providers and improving affordability for families.

The table below compares the historic allocation formula used by the provincial government in calculating the original direct operating wage grant to the recommended funding formula for Toronto. Such formulas have been used for over ten years in child care and are familiar to child care service providers.

<b>Age Group</b>	<b>Previous Formula (Points)</b>	<b>Recommended Formula (Points)</b>
Infant	36	41
Toddler	24	24
Preschool	15	15
Kindergarten	6	Current Base Funding Amount
School age	5	Current Base Funding Amount

Programs which serve younger children and those which operate on a full time basis will, in general, receive a larger grant than those serving older children and those operating fewer hours per week or month. The projected allocation is calculated using points per age group, multiplied by operating days for the program, and a value of \$0.35, which reflects the dollars available in the system. Under the formula, an infant room with 10 children would be entitled to \$37,400, a toddler room of 10 children would be entitled to \$21,900, while a preschool room with 16 children would be entitled to \$21,900.

As part of the 2015 Operating Budget, Children's Services allocated \$1.6 million in transition costs to implement a new funding model. In advance of implementation, the Division will update its guidelines, policies, procedures and reporting systems as well as complete an impact assessment on more than 650 child care operators.

Full implementation of the new funding model can be achieved within the existing operating budget based on the current system capacity. Resources to achieve the new model are included in the division's operating budget and include existing wage grant program funding of \$48.6 million and reinvestment of unallocated wage subsidy, \$6 million, associated with four and five year olds enrolling in Full Day Kindergarten. Base funding for Before-and-After School Kindergarten is no longer required due to legislation requiring full cost recovery for these programs. Reinvestment of the unallocated wage subsidy provides the resources required to address historic funding inequities for service providers offering care to the youngest children, while continuing to maintain current base funding levels for programs providing service to school age children.

Based on the 2015-19 Service Plan projections, 1,551 new spaces will be added to the licensed child care system by the end of 2019. Future investment of base funding will be required to support much needed growth in the child care system, particularly for younger age children. The operating impact of growth will be added to future Operating Budgets as service expands and in the year the new service is expected to commence. The average base funding for a child care centre of 62 children, which includes infants, toddlers and preschool spaces is \$125,000 per year. The projected cost of base funding to support system expansion would require an increased investment of \$2.6 million over 4 years. The \$1.6 million of new provincial resources earmarked for transition costs in 2015 will be allocated to supporting base funding for new spaces in 2016. The Division will invest new resources as they become available to provide base funding for system growth. Future investment will be contingent upon available provincial and municipal resources.

The General Operating Grant can be used by service providers to support salaries and benefits of child care workers and to reduce parent fees. The pay equity grant will continue to be paid to all service providers currently funded and will be deducted from the calculation of the General Operating Grant to avoid duplicate funding.

As a condition of funding, all programs receiving a General Operating Grant from Toronto Children's Services will be subject to the City's standard business requirements, including compliance with guidelines for administration, accountability and reporting, and other City policies that serve to improve access to child care for Toronto families. Service providers must provide year-round care, defined as a minimum of 11 months or more of care, (which may include summer camp) and eliminate waitlist registration fees for families. All service providers with a contract, excluding those only accessing the Provincial Wage Enhancement program, will be required to participate in the Assessment for Quality Improvement program (AQI). Currently, only those programs with a Purchase of Service agreement must participate. Finally, parent fees must reasonably reflect the true cost of care.

These policies reflect the comments raised by parents and other stakeholders as part of the Division's engagement process. Toronto parents indicated that financial pressures will be improved by eliminating waitlist registration fees for child care spaces and that access to care would be improved by promoting year-round access to service. Families will also benefit by having access to the online quality ratings for all City-funded programs.

Consistent with City and provincial practice and direction of the Children's Services Service Plan, current licensed commercial service providers receiving base funding will be eligible to receive 50 per cent of the calculated entitlement of the General Operating Grant. Similar to licensed non-profit child care service providers, existing commercial service providers will not see a reduction in funding based on the new funding model, (i.e. current funding levels will be maintained as long as there are no changes to services offered). Commercial service providers who provide services to younger age children (infants, toddlers and pre-school) will be assessed using the new formula and their calculated entitlement will be capped at 50 per cent.

## **Implementation**

The current method of funding child care service providers will continue throughout 2015. Implementation of the new model will start in 2016 and occur over three years. Forty-two per cent, or 304 service providers will see an increase in funding through the General Operating Grant of between \$6,782 and \$52,887 per annum. Those service providers that receive greater than a 10 per cent increase through the new funding model will see the increase incrementally phased in over three years.

Most service providers will continue to receive the same level of base funding (58 per cent, or 407 service providers will see no change in base funding). Fifty-four commercial service providers, or fifty-five per cent, will see an increase in base funding through the General Operating Grant of between \$4,346 and \$36,357 per annum.

Later this year, the Division will begin to conduct individual site assessments with each licensed child care service provider to review current funding levels. As a part of the assessment, Children's Services staff will meet with service providers to confirm their new funding allocation, answer any questions and support them through the change. As part of this process, Children's Services and service providers will review child care workers' salaries and parent fees to ensure reasonableness and compliance with guidelines, and to explore how best to utilize the General Operating Grant.

The Division has developed a tool that plots each service provider's child care workers' salaries and public fees relative to others. Service providers that pay lower salaries are encouraged to consider paying higher wages, either through the General Operating Grant or increasing their public fees, if their fees are also low. Service providers with higher public fees and salaries can consider lowering fees using the General Operating Grant. Appendices C and D illustrate the range of Toronto child care worker salaries and public fees.

To support expansion of the AQI program, Children's Services will work with service providers that have not been subject to this assessment to develop Quality Improvement Plans. Scores for this group will not be posted in public for the first year to provide service providers with time to understand the program and address its requirements.

## **CONCLUSION**

The recommended funding model aligns with the 2015-2019 Service Plan and will benefit Toronto by providing the child care system with stable, predictable funding. By maintaining existing funding for programs serving ages four to 12, the model supports a continuum of services for children ages birth to 12 years. The model also begins to address affordability for younger age groups. Finally, a General Operating Grant supports a professional workforce and facilitates recruitment and retention of professional staff, through base funding that can be used for salaries, benefits and training, and skill building opportunities.



The recommended funding model will benefit child care service providers as it will begin to address inequitable distribution of base funding in the current system. Expansion of the child care system is needed to improve access for all families and system growth must be supported with predictable, stable base funding.

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## **SIGNATURE**

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## **ATTACHMENTS**

Appendix A – City of Toronto Child Care Funding Model Principles  
Appendix B – City of Toronto Child Care Funding Model Options  
Appendix C – City of Toronto Child Care Worker Salaries  
Appendix D – City of Toronto Child Public Fees

## **APPENDIX A - CITY OF TORONTO CHILD CARE FUNDING MODEL PRINCIPLES**

1. The new model will support Toronto's vision for children\*.
2. The new model will balance parent accessibility, parent affordability and service system stability.
3. The funding model will support a modernized early learning and child care system (ages birth to 12) with a priority on child care programs for younger age groups (birth to four years).
4. The new model will advance child care quality.
5. The new model will recognize the value of a professional early learning and child care workforce.
6. The new model will be equitable and will support efficient early learning and child care programs.
7. The new model will be flexible to accommodate future growth and innovation.
8. The new model will reflect the City's policy with respect to access, equity and human rights and will recognize the unique nature of Aboriginal and Francophone communities.
9. The new model will address the need to keep child care fees affordable.

\*adopted by City Council November 1999

## APPENDIX B - CITY OF TORONTO CHILD CARE FUNDING MODEL OPTIONS

As part of its review, the City assessed five different child care funding models:

<b>Option 1</b>	Reallocate base funding to create new fee subsidy spaces in 0 – 4 age groups
<b>Pros</b>	<ul style="list-style-type: none"> <li>• More access for families who require fee subsidy (about 1500 additional subsidies)</li> <li>• Reduces vacancies and improves service provider viability</li> <li>• Greater benefits for low income children and families</li> <li>• Support family stabilization and improved employment opportunities which will also lower Social Assistance costs</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>• Insufficient licensed spaces for younger age groups</li> <li>• Some increases in child care fees</li> <li>• Some service providers will lose stable funding</li> </ul>

<b>Option 2</b>	Redistribute base funding to all eligible service providers serving infants, toddlers and preschoolers based on a formula
<b>Pros</b>	<ul style="list-style-type: none"> <li>• Provides more access for families with infants and toddlers</li> <li>• More families will benefit from lower child care fees</li> <li>• More equitable distribution of base funding</li> <li>• Improve viability by reducing vacancies for providers serving younger age groups</li> <li>• Supports full cost recovery of early learning and care programs for 4 - 12 age groups</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>• Some families may face an increase in child care fees</li> <li>• Little impact on overall waiting list for fee subsidies</li> <li>• Many operators receive a reduction in base funding</li> </ul>

<b>Option 3</b>	Set fee limits for infants and toddlers
<b>Pros</b>	<ul style="list-style-type: none"> <li>• Reduces cost for parents of younger children</li> <li>• Reduces vacancies and improves service provider viability</li> <li>• More equitable distribution of funding for service providers and therefore parents</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>• Does not increase number of fee subsidies</li> <li>• Some service providers will lose stable funding</li> <li>• Some increases in child care fees (pre-school and school age children) may result from the loss of base funding to some service providers</li> </ul>

<b>Option 4</b>	Provide an occupancy grant to service providers with infants, toddlers and preschoolers, and the balance of funding increases the number of fee subsidies
<b>Pros</b>	<ul style="list-style-type: none"> <li>• Reduces cost for parents of younger children</li> <li>• More access for families who require fee subsidy (about 1,000 additional subsidies)</li> <li>• Addresses occupancy grant inequities</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>• Some service providers will lose stable funding, resulting in fee increases</li> </ul>

<b>Option 5</b>	Provide an general operating grant to service providers to be used to support child care workers' salaries, offset operating expenses and improve affordability for families
<b>Pros</b>	<ul style="list-style-type: none"> <li>• Reduces cost for parents of younger children</li> <li>• Equitable to families and service providers</li> <li>• Service providers will have predictable, stable funding</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>• Does not increase number of fee subsidies</li> </ul>

## APPENDIX C - CITY OF TORONTO CHILD CARE WORKER SALARIES

<b>Child Care Workers Salaries (RECEs)</b>	
High	>\$24.76 per hour
Medium	\$19.72 - \$24.73 per hour
Low	< \$19.71 per hour

<b>Child Care Workers Salaries (Assistants)</b>	
High	>\$18.10 per hour
Medium	\$16.33-\$18.09 per hour
Low	<\$16.33 per /hour

### **Definitions**

High: top 25% of salaries  
 Middle: middle 50% of salaries  
 Low: bottom 25% of salaries

## APPENDIX D - CITY OF TORONTO CHILD CARE PUBLIC FEES

<b>Child Care Public Fees</b>	<b>Infants</b>	<b>Toddlers</b>	<b>Pre-School</b>	<b>Before &amp; After Full-Day Kindergarten)</b>	<b>Before and After School</b>
High	\$100.13	\$89.13	\$68.96	\$45.00	\$38.45
Medium	\$79.00	\$61.00	\$46.00	\$31.00	\$21.70
Low	\$49.89	\$49.89	\$38.25	\$26.11	\$18.62

### Definitions

High: 90<sup>th</sup> percentile of child care public fees  
 Medium: 50<sup>th</sup> percentile of child care public fees (median)  
 Low: 10<sup>th</sup> percentile of child care public fees