CD19.2

REPORT FOR ACTION

Toronto's Child Care Growth Strategy

Date: March 30, 2017
To: Community Development and Recreation Committee
From: General Manager, Children's Services
Wards: All

SUMMARY

This report responds to a City Council request for a Child Care Growth Strategy. The Strategy envisions a licensed child care system that can serve 50 per cent of children aged 0-4 by 2026. Achieving this vision requires significant investment from all three orders of government in terms of creating approximately 30,000 new licensed spaces and making investments in affordability for all families. The Growth Strategy aligns with the Children's Services Service Plan Capital Strategy, and with the new child care funding model implemented in 2017.

RECOMMENDATIONS

The General Manager, Children's Services recommends that:

1. City Council adopt the 10-year growth strategy (set out in Appendix A), which calls for a tri-government investment in the growth of child care, and forward it to the provincial and federal governments for their consideration.

2. City Council direct the General Manager, Children's Services to meet with provincial and federal representatives to pursue a tri-government agreement on expanding child care and early learning in Toronto.

3. City Council confirm its ongoing commitment to funding 20 per cent of child care operating costs.

4. City Council direct the General Manager, Children's Services to report back to the Community Development and Recreation Committee on impacts of anticipated provincial and federal allocations for child care on the growth strategy when they are known.

FINANCIAL IMPACT

The Growth Strategy sets out a vision that in ten years (by 2026):

a) the child care system will serve 50 per cent of children from birth up to four years; and

b) parent fees will be reduced by 25 to 40 per cent.

Achieving this vision will require significant investment from all three orders of government. The estimates outlined below are high-level figures that assume and depend on provincial and federal commitments for capital and operating resources. The estimates assume that the City will contribute 20 per cent of capital and operating costs, and that 80 per cent will be funded by the provincial and federal governments.

The Strategy estimates that 30,000 additional child care spaces for children under the age of four will be required to serve 50 per cent of children by 2026. The total capital costs required to create these new spaces are estimated at, minimally, $1.4 billion by 2026. The provincial and federal share of this total cost would be $1.12 billion, while the 20 per cent share for the City of Toronto amounts to $280 million over the ten years. For the first two years, the 80/20 cost share ratio applies over the two-year period, but not to each of 2017 and 2018 individually. This is because municipal contributions are expected to begin in 2018 only. Details are in Table 1.

Table 1: Ten-year forecast of lower-end capital costs

		New Developments/ Retrofits	**Total spaces**	**Total capital costs**	**Toronto (20%)**	**Ontario/ Canada (80%)**
Phase 1	2017	0	37,500	$5 M	$0*	$5 M
	2018	0	38,500	$5 M	$2 M*	$3 M
	2019	0	40,000	$5 M	$1 M	$4 M
Phase 2	2020	2,000	42,000	$78 M	$15.6 M	$62.4 M
	2021	3,000	45,000	$140 M	$28.0 M	$112.0 M
	2022	5,000	50,000	$233 M	$46.7 M	$186.7 M
Phase 3	2023	5,000	55,000	$233 M	$46.7 M	$186.7 M
	2024	5,000	60,000	$233 M	$46.7 M	$186.7 M
	2025	5,000	65,000	$233 M	$46.7 M	$186.7 M
	2026	5,000	70,000	$233 M	$46.7 M	$186.7 M
Total		30,000	70,000	$1.4 B	$280 M	$1.12 B

* While provincial and federal allocations are expected in 2017, funding associated with this Growth Strategy is not currently allocated in Children's Services 2017 Approved Capital Budget and Plan. For this reason, the calculated 20 per cent municipal contribution from 2017 ($1 million) has been added to the 20 per cent share for 2018 ($1 million), for a total of $2 million in 2018, should the provincial and federal governments commit their share of funding for the implementation of this vision

Operating resources are required to:

a) reduce parent fees by 25 to 40 per cent;
b) add fee subsidies for between 40 and 50 per cent of all spaces;
c) administer the growth; and
d) support staff salaries and children with special needs.

The additional operating costs required to achieve this vision are estimated to reach $610 million annually by 2026. By 2026, the provincial and federal share would be $488 million annually, with the City's 20 per cent share amounting to $122 million annually. Details are shown in Table 2.

Table 2: Ten-year forecast of additional annual operating costs

		Additional Annual Operating Costs	**Toronto (20%)**	**Ontario/ Canada (80%)**
Phase 1	2017	$10.7 M	$ 0*	$ 10.7 M
	2018	$24.4 M	$4.9 M	$19.5 M
	2019	$59.6 M	$11.9 M	$47.7 M
Phase 2	2020	$120.0 M	$24.0 M	$96.0 M
	2021	$180.0 M	$36.0 M	$144.0 M
	2022	$244.3 M	$48.9 M	$195.4 M
Phase 3	2023	$334.1 M	$66.8 M	$267.3 M
	2024	$424.0 M	$84.8 M	$339.2 M
	2025	$513.9 M	$102.8 M	$411.1 M
	2026	$610.0 M	$122.0 M	$488.0 M

* While provincial allocations are expected in 2017, funding associated with this Growth Strategy is not currently allocated in Children's Services' 2017 Approved Operating Budget. For this reason, City of Toronto contributions are estimated to begin in 2018, should the provincial and federal governments commit their share of funding for the implementation of this vision.

The City's actual costs and investments made (both capital and operating) will be contingent on confirmation of allocations from the other orders of government. These allocations are not known at this time. The City's actual commitments will be subject to the City's annual budget approval process.

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

DECISION HISTORY

At its meeting of November 8 and 9, 2016, City Council adopted the report titled "Growing Toronto's Licensed Child Care System" and in doing so requested the General Manager, Children's Services develop an early learning and child care growth strategy.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.CD15.2

COMMENTS

Background

In the Speech from the Throne on September 12, 2016, the provincial government committed to creating 100,000 new child care spaces over five years for children up to four years old.   While Toronto-specific targets or allocations are not known, based on historical shares of provincial announcements, this could result in approximately 30,000 new spaces in Toronto. Similarly, the federal government has announced $500 million for 2017-18 to support the development of a new National Early Learning and Child Care Framework, to be developed with provinces, territories and Indigenous communities. $100 million of this is earmarked for Indigenous child care and early learning on reserve. On March 22, 2017, the federal budget announcement proposed an additional $7 billion over ten years, starting in 2018-19, "to support and create more high quality, affordable child care spaces across the country". The budget plan indicates that the investment could support up to 40,000 new subsidized child care spaces in the next three years, and also re-confirms that the federal government is working with provinces and territories to develop a National Framework. Provincial allocations are not known at this time.

As the service system manager for child care and the early years in Toronto, Children's Services is responsible for managing this growth, in collaboration with other partners who make up the system. The Growth Strategy appended to this report sets out an ideal vision for Toronto's child care system: that in ten years - by 2026 - the system will serve 50 per cent of children from birth up to four years. It also anticipates how new child care resources could be used in support of this vision.

This vision is based on the results of the Licensed Child Care Demand and Affordability Study, which was considered by City Council in November 2016. The study built economic models of demand for licensed child care in Toronto. It found that demand could rise to 50 per cent of children, but that current demand is constrained by costs that are unaffordable for most families. Other studies, such as one by the Canadian Centre for Policy Alternatives titled, " A Growing Concern: 2016 child care fees in Canada’s big cities" have also highlighted the high cost of child care in Toronto.

Significant capital investments and measures to address affordability will be required to meet this vision. Creating capacity without simultaneously improving affordability risks that spaces will not be filled. The Strategy considers all of these components as part of an affordable and accessible licensed child care system. It also sets out a ten-year plan that guides investment in each of these areas. Once provincial allocations and targets are known and details are available on federal resources, this strategy will guide Children's Services' investment decisions.

While this Strategy focuses on children from birth to four years of age, work is also ongoing related to schoolage expansion plans. New legislative requirements compel school boards to provide programs for children in Kindergarten up to grade 6, where there is demand and viability. Children's Services is working with school boards to inform these plans and facilitate this expansion. Unlike the expansion for the younger age groups, no new resources are currently expected to implement the expansion requirements for schoolage children. While there are no capital needs for the school age group because programs take place in shared school space, the lack of operating resources (such as fee subsidy and resources for children with extra support needs) will put pressure on the entire system.

Comments

Capital

The capital plan associated with this Strategy is ambitious. It will be challenging to achieve the rate of growth implied by the provincial announcement and envisioned in this Strategy. By 2026, the population of children under age four is expected to grow to approximately 140,000. Serving 50 per cent of these children will require approximately 30,000 new licensed spaces. There are currently just under 40,000 spaces for this age group, including new spaces that are currently under construction for 2017 and 2018.

Significant funding from all three orders of government will be required in order to increase the number of spaces for this age group. Additionally, while some expansion can be achieved by expanding existing centres or retrofitting other existing spaces, much of it will depend on acquiring land and entering into partnerships where developments are occurring. Given the size of the forthcoming expansion, it is anticipated that planning, management and construction activities will be completed by third parties under contract to Children's Services.

The costs of the capital component is estimated at between $1.4 billion and $1.9 billion (not including the cost of land), spread over 10 years. Municipal contributions, estimated between $280 million to $380 million, would include funding from the Child Care Capital Reserve fund and Development Charges, where possible. The amount to be contributed by the federal and provincial governments is estimated between $1.12 billion to $1.52 billion.

Operating

The plan for operating resources is also ambitious. As a result of modeling and findings from the Demand and Affordability Study, it envisions reducing parent fees for all families by between 25 and 40 percent below current levels through operating grants (base funding) to child care operators, and maintaining enough fee subsidies for between 40 and 50 per cent of spaces.

While adding to the number of fee subsidies is straightforward with sufficient funding, there are important risks that need to be mitigated with any significant increase in base funding. Salaries make up the majority of costs for child care operators, and the compensation of some Registered Early Childhood Educators is already low. It is vital that reduced costs are not achieved by reducing salaries or program quality. Second, it is important that new investments of operating grants be accompanied by policies that control increasing parent fees. At times, in other jurisdictions, base funding has been used by operators for other purposes and has not effectively reduced fees. This highlights the need to research ways of controlling increasing parent fees as a condition of base funding, as is done in many other jurisdictions.

Combined, the envisioned operating measures are estimated to cost an additional $610 million annually by 2026. This includes $84 million to support staff salaries, $340 million to reduce parent fees, $100 million for fee subsidies, $25 million to support children with special needs, and $61 million for administration. Annual cash flow requirements of the plan, showing a 20 per cent City contribution, are contained in the Strategy. Municipal contributions are estimated at $122 million annually by 2026, while the amount to be contributed by the federal and provincial governments is estimated at $488 million.

Other Issues and Challenges

Additionally, a number of operational challenges associated with rapid growth will need to be resolved. Significant work with child care operators is necessary in order to increase the community's capacity to accommodate this growth. There are currently a number of large, multi-site operators, but the extent to which these organizations are willing or able to expand is not known. In some cases, support may be required to strengthen the governance and administration of additional capacity. Similarly, strategies will be required to ensure that there are enough qualified professionals to staff expanded programs.

Children's Services will also need to increase resources in order to carry out its legislated role as service system manager for an expanded child care and early years system. While Children's Services is reviewing current business practices for efficiencies, an expansion of this size will inevitably create a need for additional system management supports.

These costs would be funded through the administration component that is included in provincial funding to municipalities. Currently Children's Services uses less than seven per cent of its budget for administration but would increase to the allowable 10 per cent for the implementation period.

There will be a number of market impacts requiring policy responses. First, child care operators that do not currently have a service agreement with Children's Services will find it difficult to compete when fees are lowered for operators with an agreement. This will necessitate a new way of determining when and how to enter into new agreements. Second, if fees are controlled only in Toronto, families living in surrounding municipalities will have much stronger incentives to seek care in Toronto, which would limit access for residents of the city. Where child care fees are capped or controlled in other Canadian jurisdictions, it is generally done at the provincial level, which lessens the opportunity to seek out lower fees in neighboring municipalities. Resolving this issue will therefore require cooperation and alignment with the Province and surrounding municipalities.

Finally, the strategy assumes that funding from provincial and federal initiatives comes with sufficient flexibility in order to allocate between capital, base funding and fee subsidy. Such flexibility is needed in order to make investments that are locally responsive to Toronto's needs. It is also needed given the ambitious nature of capital expansion plans.

Conclusion

The Growth Strategy appended to this report provides a vision for developing a child care system that is affordable and accessible for all families who would like to use licensed child care. When provincial and federal targets and financial allocations are known, this growth Strategy will guide how Children's Services deploys resources in accordance with its role as service system manager. Throughout the process of refining and implementing the Growth Strategy, Children's Services will follow the principles of the Child Care Service Plan. Children's Services' next Child Care Service Plan will cover the period 2020 to 2024. This Service Plan will incorporate the Growth Strategy and an updated capital strategy. These will draw on new Census data and more detailed information on provincial and federal investments. These Council-approved plans will be used to identify areas with the greatest need for new spaces and ensure that these spaces and resources are equitably distributed.

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SIGNATURE

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ATTACHMENTS

Appendix A: Toronto's Licensed Child Care Growth Strategy