CD23.5

TORONTO

REPORT FOR ACTION

Child Care Growth Strategy - Phase One Implementation (2017-2019)

Date: October 6, 2017
To: Community Development and Recreation Committee
From: General Manager, Children's Services
Wards: All

SUMMARY

This report provides details related to Phase One of implementing the Council-approved Toronto Licensed Child Care Growth Strategy (for children from birth to 4 years) and reflects the impacts of recent funding commitments from the federal and provincial governments. It highlights targets and system transformations required to achieve the long-term goals of the Strategy including setting targets for growth, affordability and a thriving workforce and identifies policy issues that must be addressed.

RECOMMENDATIONS

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

1. Request that the Province develop policy guidelines to support a provincial salary and fee framework that would advance the goals of the Growth Strategy.

2. Authorize the General Manager, Children's Services to enter into and execute agreements with non-profit and public sector partners to fund capital projects associated with the retrofit, expansion or development of child care spaces outside of schools to be funded from the Child Care Capital Reserve Fund (XR1103) using funds previously approved by Council as part of the Canada-Ontario Early Learning and Child Care Agreement, with such agreements to be in a form satisfactory to the City Solicitor.

3. Authorize the General Manager to advance up to 90 per cent of the cost of federally funded Capital Projects prior to December 31, 2018 with the remainder to be paid upon satisfactory completion of the projects to ensure that federal funds are committed prior to the December 31, 2018 deadline for expenditures, with such arrangements to be in a form satisfactory to the City Solicitor and Chief Financial Officer.

4. Request the General Manager, Children's Services, to undertake consultation with parents, child care agencies and other stakeholders on affordability options for licensed child care.

FINANCIAL IMPACT

Initially, with the April 10, 2017 CD19.2 "Toronto's Child Care Growth Strategy" report, a 10-year growth strategy was adopted based on a tri-level government investment in child care with additional funding contributions from the federal, and provincial governments and the City of Toronto.

Subsequently, on July 4, 2017, with adoption of the recommendations in EX26.30, "Children's Services Amendment to the 2017 Operating Budget to Reflect Increase in Provincial Contributions" additional funding has been confirmed from the provincial government of $34.450 million and $21.5 million from the federal government to increase access to affordable childcare. The report recommended a contribution of $15.785 million of the new funding to the Child Care Capital Reserve Fund (XR1103) to expand access to child care for children, with at least $8.585 million of this total being committed to projects in 2017 to satisfy federal investment deadlines.

The additional funding of $55.950 million requires a City contribution of $11.2 million, reflecting the City's 20 per cent share towards child care growth. The additional City investment of $11.2 million in 2018 is subject to the 2018 budget review process that will confirm a funding plan and ensure alignment with the capacity to spend and deliver expanded programing.

EQUITY IMPACT STATEMENT

High-quality, affordable early learning and child care is important for families. Currently, many Toronto families have difficulty accessing child care due to the high cost of care and inability to access licensed spaces. Affordability is one of the greatest barriers for families to access programs.

This report describes a number of current and future investments and initiatives that will build new licensed child care spaces, improve affordability for families and support a thriving workforce.

DECISION HISTORY

On June 10, 11, and 12, 2015, City Council adopted CD4.5, Toronto *Child Care Funding Model*. This funding model established a General Operating Grant (GOG) to support eligible licensed child care centres, replacing the previous provincial wage-related grant programs. Creating the GOG provided the vehicle through which child care affordability could be addressed as funds become available.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.CD4.5

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 to develop an early learning and child care growth strategy.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.CD15.2

On April 26, 2017, City Council adopted the ten-year Child Care Growth Strategy, and directed the General Manager, Children's Services to report 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.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.CD19.2

On July 4, 2017, City Council adopted amendments to the Children's Services 2017 operating budget to reflect increases in provincial and federal contributions.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX26.30

ISSUE BACKGROUND

In 2016, Children's Services commissioned the Licensed Child Care Demand and Affordability Study from a research team at the University of Toronto. The study built and tested models that measured the demand for and affordability of child care in Toronto. The study found that more families want to use licensed child care than currently access the service, and that affordability is a significant barrier for many families. The results made it clear that growth must simultaneously address affordability and capacity. Growing capacity without addressing affordability would increase the likelihood of vacancies in child care centres since most families cannot afford the cost of care. Although improving affordability alone would help those currently with a space, it would not increase access for those without a space.

In 2017, with the adoption of recommendations in CD19.2, City Council adopted Toronto's 10-year Licensed Child Care Growth Strategy which addressed issues raised in the above study and envisioned by 2026:

- Growing the child care system to serve 50 per cent of children from birth to age four (estimated 10-year cost of $1.4 billion);
- Increasing fee subsidies to serve 40 to 50 per cent of all licensed spaces (estimated additional annual operating costs of $100 million);

- Providing operating grants that reduce parent fees by 25 to 40 per cent (estimated additional annual operating costs of $340 million); and
- Supporting a thriving early learning and child care workforce (estimated additional annual operating costs of $84 million).

Investments are in 2017 dollars.

The Growth Strategy was prompted by a number of changes and modernization initiatives that have occurred at the community, municipal, provincial, and federal levels, over the last several years.

The most significant ongoing change for the sector over the past ten years has been the implementation of Full-Day Kindergarten (FDK) with requirements for school-based before and after school programs, and subsequent requirements for programs for children in grades one to six. These programs focus on the provision of care in shared space in schools. Through a number of transitional supports, and the partnership of child care operators, school boards, and families, the child care system for these children was transformed and expanded. Today, the Division continues to support significant expansion of before and after school programs for children age four to 12 years old through joint planning with school boards.

While this expansion was occurring, in 2012, the Province introduced a new child care funding framework that increased flexibility for municipalities. This allowed funding to be allocated in ways that address local early learning and care requirements. With this flexibility, Children's Services developed a Toronto Funding Model in partnership with the community, parents and other stakeholders. The model introduced a new General Operating Grant (GOG) that supports affordability for all families while keeping child care fee subsidies that provide more targeted support to eligible families with lower incomes. The model was fully endorsed by the child care sector and approved by City Council in June 2015, with approval of CD4.5, "Toronto Child Care Funding Model'.

More recently, the provincial and federal governments each made announcements committing to expansion of services for children from birth to age four. While financial details were not immediately available, it was apparent that significant investments would be forthcoming.

While these initiatives and announcements have represented significant changes for families, child care operators, school boards, and the City, they also present new opportunities for supporting child and family well-being, and provide a new framework for local planning and integrated service delivery. The Growth Strategy was developed to take advantage of these opportunities, anticipate new resources, and set out a vision for child care growth in Toronto.

In June 2017, Toronto's allocation of federal and provincial investments for 2017 was announced, followed by Council approval of associated Children's Services budget amendments on July 4, 2017 with the adoption of recommendations in EX26.30 "Children's Services Amendment to the 2017 Operating Budget to Reflect Increase in Provincial Contributions." The investments included $34.45 million in provincial expansion funding to increase access to affordable child care for children from birth to age four.

Additionally, through the Canada-Ontario Early Learning and Child Care Agreement 2017, a federal allocation for Toronto of $21.5 million was confirmed to increase access to affordable child care for children from birth to age 12, including supporting additional fee subsidies, access and affordability measures, and capital expansion.

These new investments resulted in the following service level enhancements beginning in 2017:

- An increase of $35.60 million for fee subsidies, adding 2,189 new fee subsidies for children from birth to age four and 427 new fee subsidies for children age four to 12;
- An increase of over $0.8 million to support children with special needs;
- An increase of almost $3.0 million in General Operating Grants to begin to address affordability and support a thriving early learning workforce;
- A contribution of $15.8 million for capital projects to increase licensed child care spaces for children from birth to age four.

To support implementation of the Child Care Growth Strategy, City Council committed to investing the equivalent of 20 per cent of provincial and federal investments in growth, subject to the annual budget process.

COMMENTS

The City's Child Care Growth Strategy recognized that investments were needed in the key areas of fee subsidy, affordability (through base funding), salaries and capital. Special needs funding and administration were also included as necessary supports for successful growth. The Strategy estimated the investments that would be needed to achieve stated objectives in each of these areas. At the time, without information on investments from other orders of government, those costs were allocated over a ten-year period based on initial assumptions and projections. Now, with resources committed for Phase One, a more precise plan can be developed.

Growth Strategy Resources: Phase One

Table 1 illustrates the needs set out as per the Growth Strategy approved in April, prior to any provincial or federal allocations being announced.

Table 1: Approved Growth Strategy Phase One - expressed as incremental costs

($millions, incremental)	2017	2018	2019	Total
Growth strategy projected operating Need	$10.70	$13.70	$35.20	$59.60
Growth Strategy projected capital Need	$5.00	$5.00	$5.00	$15.00
Total Growth Strategy Need	**$15.70**	**$18.70**	**$40.20**	**$74.60**

Table 2 updates Phase 1 based on known 2017 investments and revised projected resources in 2018 and 2019. The tables show incremental amounts and assume each year's amount is carried forward as part of the following year's base budget.

Table 2: 2017-2019 Resources, Known and Projected - expressed as incremental costs

($millions, incremental)	2017 (committed)	2018**	2019***	Total
Provincial Expansion Funding	$34.50	$7.70	$23.50	$65.70
Canada-Ontario agreement	$21.50	$0.00	$0.00	$21.50
Municipal share* (20% with one-year lag)	$0.00	$11.20	$1.50	$12.70
Tri-government investment	**$56.00**	**$18.90**	**$25.00**	**$99.90**

*Subject to approval through the budget process
** Projections
***Required to meet Phase One targets as described in this report

Provincial investments for 2018 and 2019 have not yet been confirmed. Children's Services has projected an additional $7.7 million and $23.5 million from the Province for expansion in 2018 and 2019, respectively.

The federal investment is paid to the Province in three annual and effectively equal payments. Children's Services has included the 2017 amount for Toronto of $21.5 million in the base budget for 2018 for 2019. Therefore, only 2017 shows as new incremental funding.

Allocation of Expansion Resources

For Phase One Implementation (2017-2019), the Growth Strategy noted that:

"In the short term, capital development will focus on completing construction already planned, and on finding new opportunities for growth. Affordability challenges will be met mostly by increasing the number of fee subsidies in order to reduce current vacancies and to keep pace with the modest number of new centres that will be opening. Small increases in operating grants will be used to keep current funding levels at pace with inflation. At the same time, updated Census data and the development of the next Children's Services Service Plan will refine the ability to direct growth to areas of greatest need".

While the overall objectives of the Strategy have not changed, the magnitude of the investments allocated at this time enables more aggressive expansion and affordability targets in Phase One of implementation. Table 3 summarizes how these investments will be used towards achieving the objectives of the Growth Strategy vision. A discussion of each objective follows.

Table 3: 2017-2019 Revised Allocation of Committed and Projected Resources

($millions) (operating costs are incremental; capital costs are annual amounts)	2017*	2018**	2019***	Total Phase 1	2026 (Growth strategy Target)	% of target achieved in 2017	% of target achieved in Phase 1
Increase fee subsidies for:							
children birth - four	$31.3	$ 0	$ 11.*2*	$42.5	**$100.00**	**31.30%**	**42.50%**
children four -12	$4.3	$ 0	$ 0	$4.3			
Sub-Total fee subsidy	**$35.6**	**$ 0**	**$ 11.2**	**$46.8**			
Reducing Fees	$1.4	$12.8	$16.0	$30.2	$340.00	0.41%	8.88%
Salaries	$1.4	$4.0	$4.0	$9.4	$84.00	1.67%	11.19%
Special Needs	$ 0.8	$0.3	$ 0	$1.1	$25.00	3.20%	4.44%
Home Child Care	$ 0	$3.0	$ 0	$3.0			
Growth Management Administration	$1.0	$3.4	$ 0	$4.4	$61.00	1.64%	7.20%
Total Operating	**$40.2**	**$23.5**	**$ 31.2**	**$95.1**	**$610.00**	**6.59%**	**15.56%**
Total Capital	**$15.8**	**$11.2**	**$ 5.0**	**$32.0**	**$1,400.00**	**1.13%**	**2.29%**

Note: The City's planned contribution will be considered as part of the annual Budget processes.
*Committed
**Planned, subject to resources received and budget approval process
***Required to meet Phase One targets, and subject to budget approval process

Operating and capital funding provided by other orders of government for 2017 is included in the Division's 2017 Approved Operating Budget and Approved 10-Year Capital Plan. Planned investments for operating in 2018 are funded through provincial and federal base funding introduced in 2017, and any 2017 under expenditures (as per provincial guidelines. The 2017 provincial funding allocation was not confirmed until late June, 2017 and authority has been given to use any unspent funding in 2018 to support service delivery in 2018 in order to meet mandated targets. Planned capital investments in 2018 represent the City's 20 per cent contribution to growth, subject to approval during the 2018 budget review process. The 2019 funding represents the required funding to achieve the revised Phase One targets which are discussed below.

Affordability

Reducing Fees

The Licensed Child Care Demand and Affordability Study showed that more broad-based investments in affordability for all families are necessary for an accessible and affordable system. The General Operating Grant (GOG) is base funding to child care centres and, in part, supports lowering fees. As a result, the GOG supports the needs of all families who struggle with the cost of child care.

The goal of Phase One is to increase GOG funding so as to reduce average parent fees by up to 10 per cent by the end of 2019, with an initial focus on fees in the highest range, moving towards the goal of overall fee reductions of 25 to 40 per cent over ten years. In order to achieve this reduction, an additional $30.2 million per year is required to be invested in the GOG by 2019.

Already, Toronto's experience with modest increases to GOG payments suggests that fee increases have been stabilized. In 2017, additional base funding for child care operators of $11.4 million was invested (using unallocated wage subsidy funding in Children's Services' base budget and federal and provincial investments). This resulted in 224 programs receiving new or increased base funding. The average parent fee increase across the sector in 2017 was less than one per cent, less than the rate of inflation. Prior to this new investment in base funding, average parent fee increases were 3.3 per cent and 2.32 per cent in 2015 and 2016 respectively. The Province is also investigating ways to address affordability and the City's ongoing efforts to create an affordable system will align with any resulting provincial changes.

Fee subsidies

In 2017, $31.3 million of provincial expansion funds and $4.3 million in Canada-Ontario Agreement funding will be used to increase fee subsidies by 2,189 for children from birth to age four and by 427 for children age four to 12. With $12.0 million projected provincial and federal carry forward in growth funding in 2017, an additional 825 subsidies for younger children will be added in 2018 to address affordability and access for eligible families who are in the most financial need. These increases will have material impact on the waiting list for fee subsidy, which stands at 8,213 for children from birth to age four (October 2017).The overall waiting list for all children has already responded to increased investments in fee subsidy, having decreased to approximately 13,000 from over 18,000 in October 2016.

The Phase One goal is to establish and maintain a ratio of 40 per cent subsidies to spaces for children birth to age four, in line with the Growth Strategy's goal of a 40-50 per cent ratio by 2026.

By 2019, this Strategy provides for 3,014 additional fee subsidies for children from birth to age four, bringing the total for the age group to 15,131, enough for 41 per cent of current infant, toddler and preschool spaces.

Wages

The base funding provided by the GOG contributes to two important components of Toronto's Child Care Growth Strategy: improving Registered Early Childhood Educator (RECE) salaries and promoting affordability for all families as discussed in the previous section. In Phase One, investments in the GOG will address both.

At centres where wages for RECEs are low, Children's Services will work with operators to direct the GOG to improve wages and reducing fees where possible. For centres with higher wages, the GOG investment will be directed to lowering fees. For those with average wages, the best use of GOG funding will be determined on a case-by-case basis, with support from Children's Services District Consultants.

Investments in salaries are also investments in affordability. Low public fees contribute to low salaries and difficulty recruiting and retaining staff which impacts the quality of learning environments. Building a thriving workforce is an important pillar of the Growth Strategy. To achieve this, actions must improve recruitment and retention through appropriate salaries and stable jobs. The Phase One goal is to increase RECE salaries by six per cent by 2019, focusing on the 30 per cent of agencies with the lowest compensation levels. As part of the $8.5 million GOG increase in 2017, the average salary for RECEs in Toronto increased by 2 per cent

The Division also continues to support RECE attraction and retention through a working table of the Toronto Child & Family Network and by informing the development of a provincial workforce strategy to support a longer-term plan for growing the profession of early childhood education. These initiatives address the multiple complex issues facing the sector such as compensation, hiring, retention and professional development. The Division will also support continued provincial investments that target and increase wages for the early years workforce, through the Provincial Wage Enhancement Program.

Capital

In 2017, $15.8 million from the Canada-Ontario agreement has been allocated to capital to create new child care spaces in 2017 and 2018. In 2017, $8.6 million is committed to a grant program for non-profit and public sector operators to support capital costs associated with renovations or new builds. In 2018, the remaining funds will be used for other federally funded projects. In total, this funding could create approximately 250 new spaces; more if spaces are renovated as opposed to newly-built. The growth strategy proposes to add $11.2 million in new capital investments (the City's 20 per cent contribution to growth in 2018, which is subject to the budget review process), which will build three child care centres, creating approximately 180 new spaces.

Other child care capital projects are funded by the Children's Services 10-year Capital Plan, or through sources outside of the City's budget, such as community benefits associated with development projects negotiated through Section 37 agreements, and projects in schools funded by the Ministry of Education through school boards under various capital programs. The growth from all these sources expected by 2019 is summarized in Table 4.

Table 4: Capital Growth of Child Care for children birth to age four by 2019

Source	**Spaces by 2019**
10-year capital plan Note: Assumes projects where funding ends in 2017 or 2018 will open by 2019. Does not include projects still being funded in 2019 or later	528
School board funded Capital Programs	787
Section 37 directly funded development projects not included in the City's 10 Year Capital Plan	290
Community capital projects and retrofit grants (estimate)	430
Subtotal: Expected New Spaces	**2,035**
Existing spaces	36,749
Total by 2019	**38,784**

Achieving rapid capital development in Toronto is a challenge. Capital funds do not allow for the purchase of land or buildings, or for building new capacity in schools. For this reason, Recommendation 4 of this report requests authority to advance federal funds for capital projects to not-for-profit and public partners, in order to achieve federal deadlines. Children's Services is in conversations with all Divisions and other community partners in order to leverage current and future capital projects that have the potential to include child care.

In June, the Ministry of Education launched two additional funding processes in order to fund child care expansion in schools. As with similar funding opportunities in the past, the Ministry flows this money to school boards, which must work with the service system manager to identify and prioritize proposed projects. There is no allocation for Toronto; instead, the Ministry of Education reviews all projects across the province and decides which applications to fund. This year, school boards in Toronto have submitted 63 school-based child care projects to the Ministry. No funding decisions have been announced at this time.

The total number of planned new spaces for children from birth to age four from 2017 to 2019 from all sources is approximately 2,035. This will bring the total number of spaces to 38,784, or 55.4 per cent of the Growth Strategy target of 70,000 spaces by 2026. These figures do not include any new child care centres in schools that the Ministry of Education may announce as a result of this year's application process.

Children's Services uses its Capital Strategy to determine where to locate new child care centres. The Strategy directs new development to areas where access is lowest, based on the total child population and current spaces that are available or planned, so that the system is made more accessible for all families. The current capital priorities map is attached as Appendix A. Other factors impacting where capacity can be built include the availability of space and the willingness of operators to expand.

Implementation Strategies

In order to achieve these goals, controls are needed to ensure that these funding commitments are effective**.**

Currently there is no mechanism to ensure that GOG is directed to lowering fees or increasing salaries. New policy and controls are required to ensure that greater public investments are effective at reducing fees charged to families and/or improving wages for staff. Other jurisdictions have shown that when substantial funding increases occur without these controls, there is a risk of not realizing affordability or wage gains. Children's Services will make changes to terms and conditions contained in its service contracts with operators to improve its ability to achieve these goals.

Provincial action is also required otherwise significant decreases in fees in Toronto may increase demand from residents in surrounding municipalities, limiting the benefit to Toronto families and preventing the vision of the Growth Strategy from being realized. Thus the Province is encouraged to develop policy and guidelines to ensure increased affordability and improved salaries in all regions.

Children's Services will develop a formal salary expectation for programs that it funds. This will include a framework that encourages progress towards the provincial wage enhancement threshold which currently stands at $26.68 per hour. This direction would also benefit from clear provincial guidelines.

Over the next ten years, affordability and wages will be influenced by inflationary costs, minimum wage increases, and new investments in base funding, provincial actions through policy or mandated targets, and other variables. As the implementation of the Growth Strategy progresses, all options for improving affordability will be explored. These may include more substantial increases to the GOG, recommending a new provincial income test for fee subsidy eligibility or perhaps a sliding scale approach to fees similar to that used in Quebec. Children's Services will consult on these and other options over the next year. The findings of these consultations will inform future phases of the growth strategy.

Conclusion

Toronto's ten year vision for the licensed child care system for children under four is ambitious, with a vision for 30,000 new spaces by 2026, increased affordability, and a thriving workforce. Continued and consistent funding from all three orders of government will be necessary to meet the Growth Strategy's vision.

The demand for and growth of an affordable, accessible, and high quality child care system, staffed by a thriving workforce, will be influenced by many factors by 2026. These targets will continue to be refined as new information becomes available.

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SIGNATURE

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ATTACHMENTS

Appendix A - Child Care Capital Neighborhood Priorities Map

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