

**Presentation to the Audit Committee
on May 11, 2018
Agenda Item AU12.2**

**Children's Services Division
Opportunities to Achieve Greater Value for
Child Care from Public Funds**

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Background

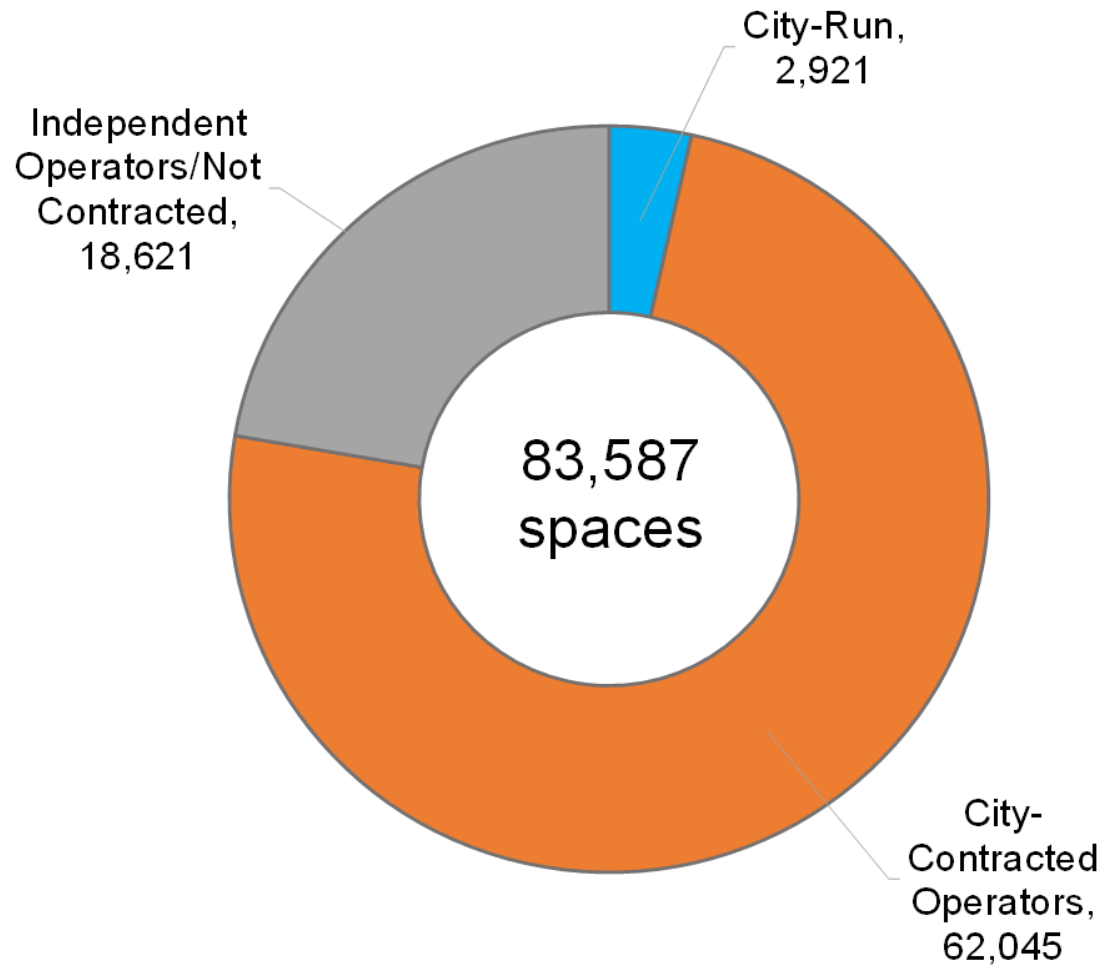
Child Care in Toronto

- ▶ Quality child care can make a positive difference for children (Fraser Institute, 2015)
- ▶ Toronto is one of the most expensive cities in the country for licensed childcare services
- ▶ It's unaffordable for 75% of families, according to a 2016 study

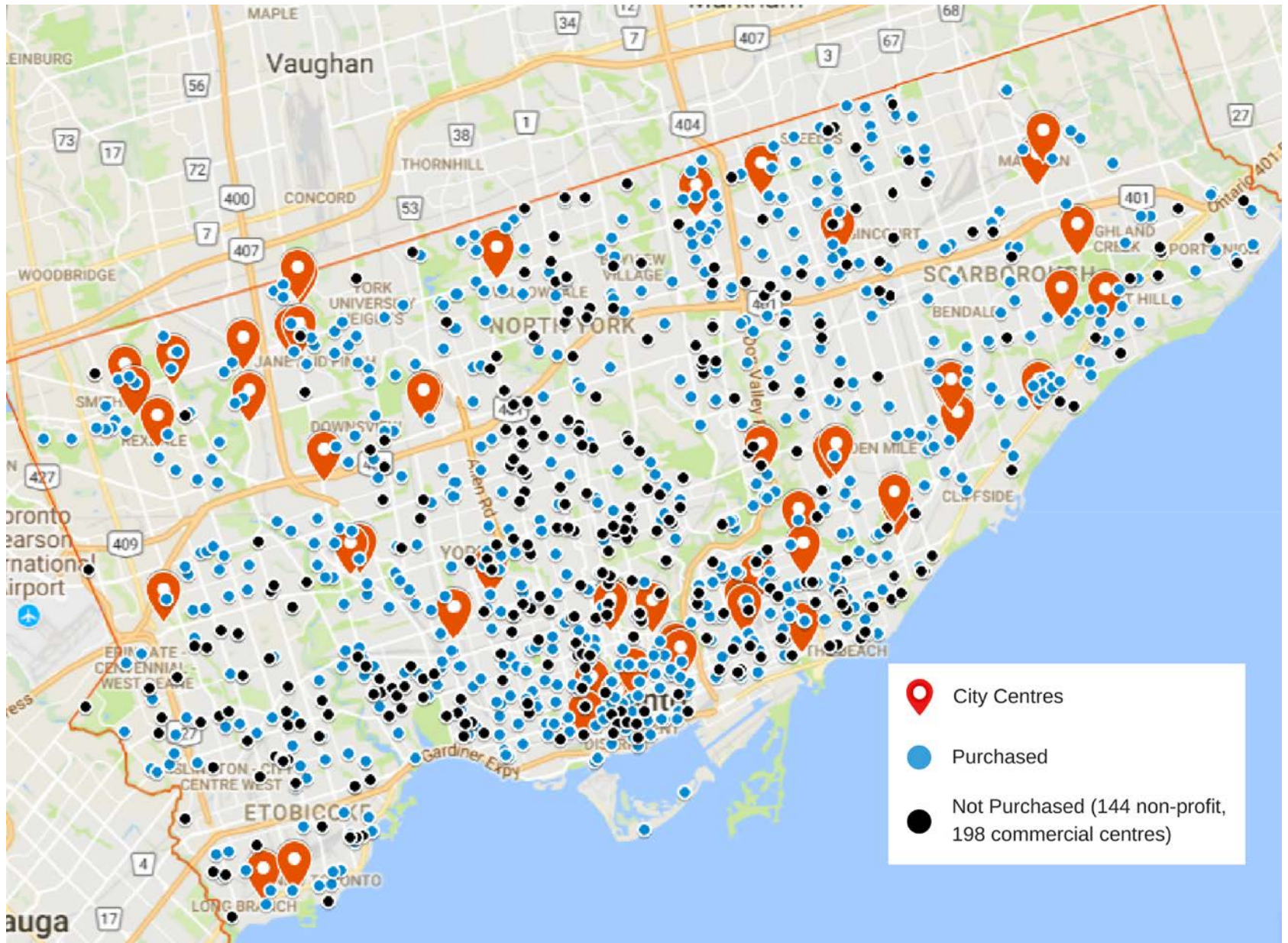
Children's Services Division – Some of its Key Functions

- ▶ Manages child care subsidy process
 - Conducts eligibility assessments for subsidy applications
 - Manages the wait list
 - Administers 639 contracts with licensed child care centres to purchase child care services for children with subsidies
- ▶ Administers base funding to licensed operators
- ▶ Operates 52 licensed child care centres
- ▶ Performs quality inspections at the City-run and contracted centres

Number of Licensed Child Care Spaces in Toronto



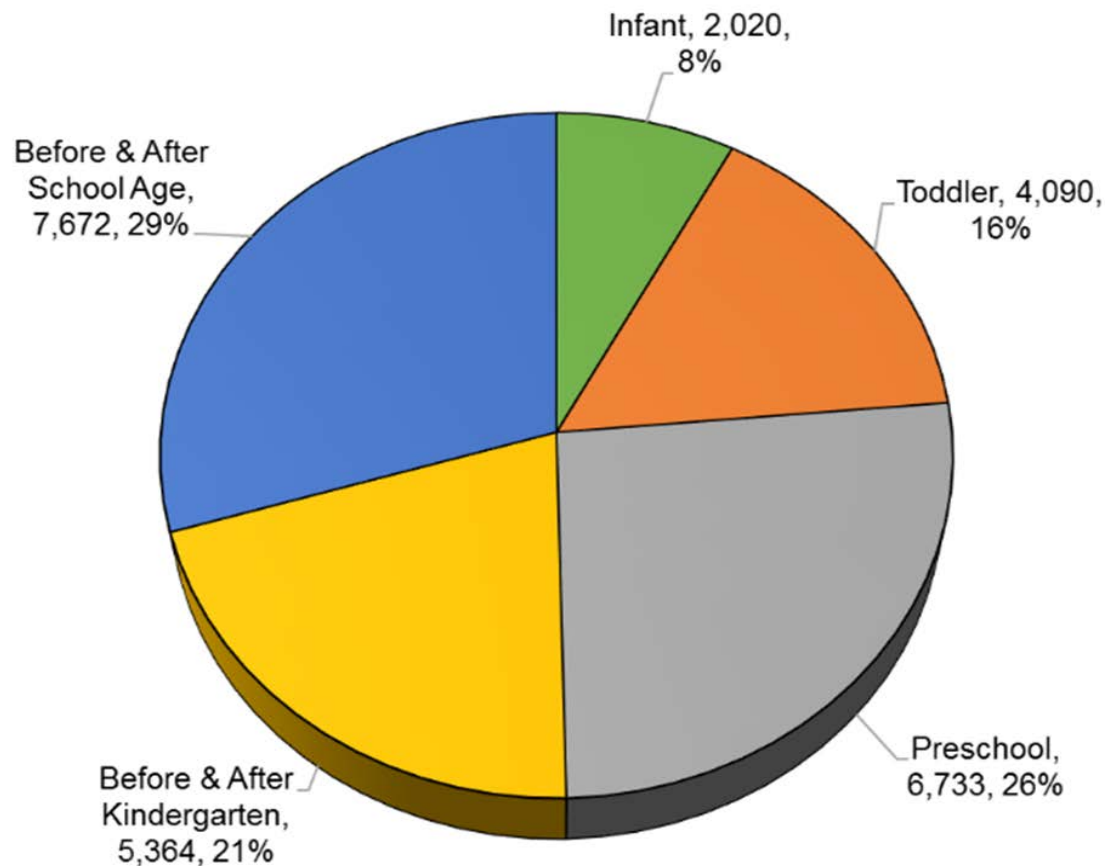
Licensed Child Care Centres in Toronto



2017 Statistics

- ▶ \$279 million to provide fee subsidies to about 28,000 children
- ▶ 83,587 licensed spaces in 1,033 child care centres in the City
 - 74% of spaces are in non-profit centres
 - 23% of spaces in commercial centres
 - 3% of the spaces in City-run centres
- ▶ \$56.7 million to operate 52 City-run child care centres
 - 2,921 licensed spaces
 - 2,684 operating capacity
 - 2,220 average occupancy

Number of Children with Fee Subsidies in a Licensed Child Care Centre (excludes Home Child Care)

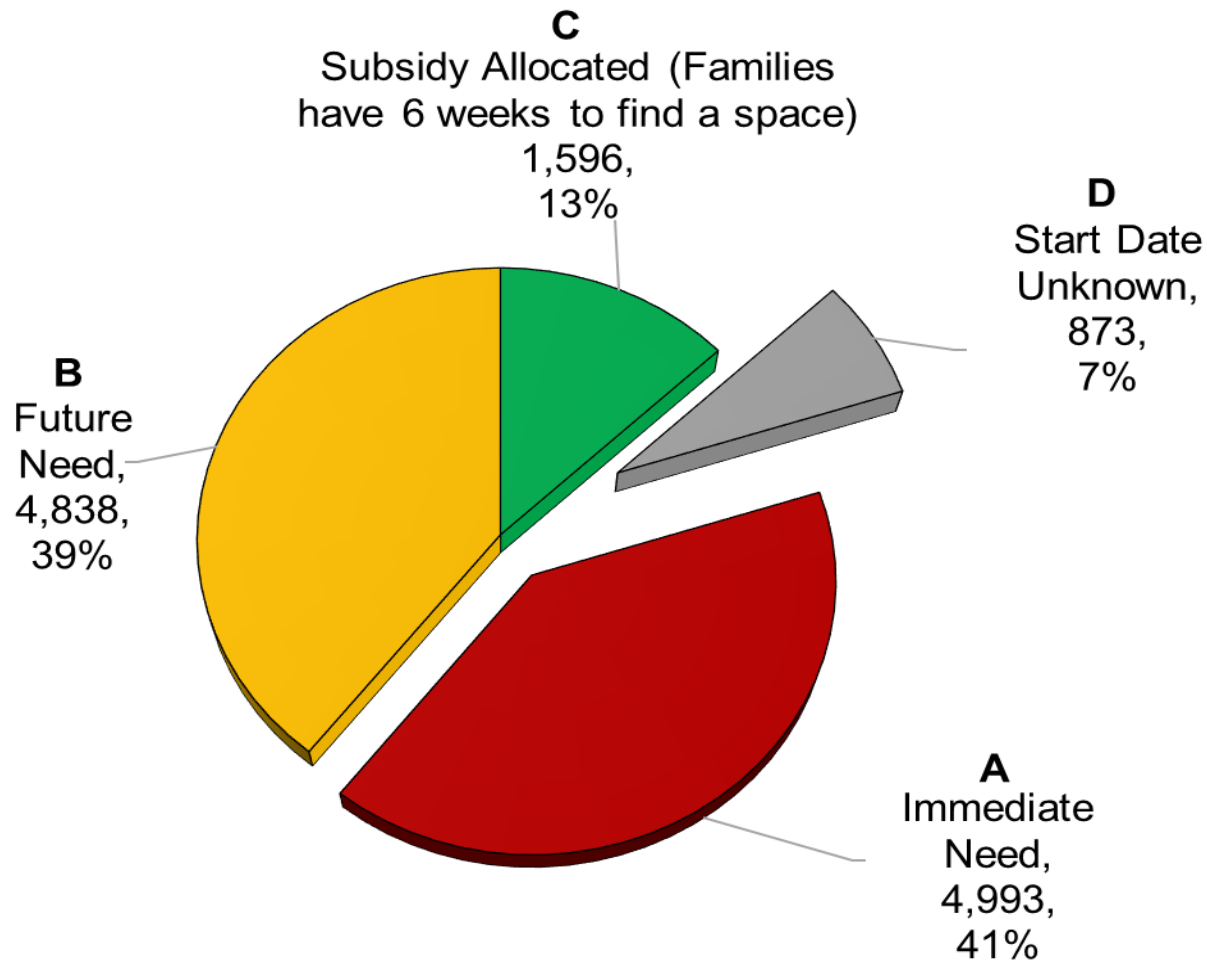


Subsidy Wait List and Access to Licensed Spaces

More Accurate Wait List Data

- ▶ Breakdown of the wait list data
- ▶ Need to provide a clear picture of the current demand for child care subsidies:
 - Subsidy allocated and need space
 - Immediate need
 - Future need
- ▶ Information is needed to better understand the short and long-term needs in the City's child care system for all stakeholders

Subsidy Wait List at December 31, 2017



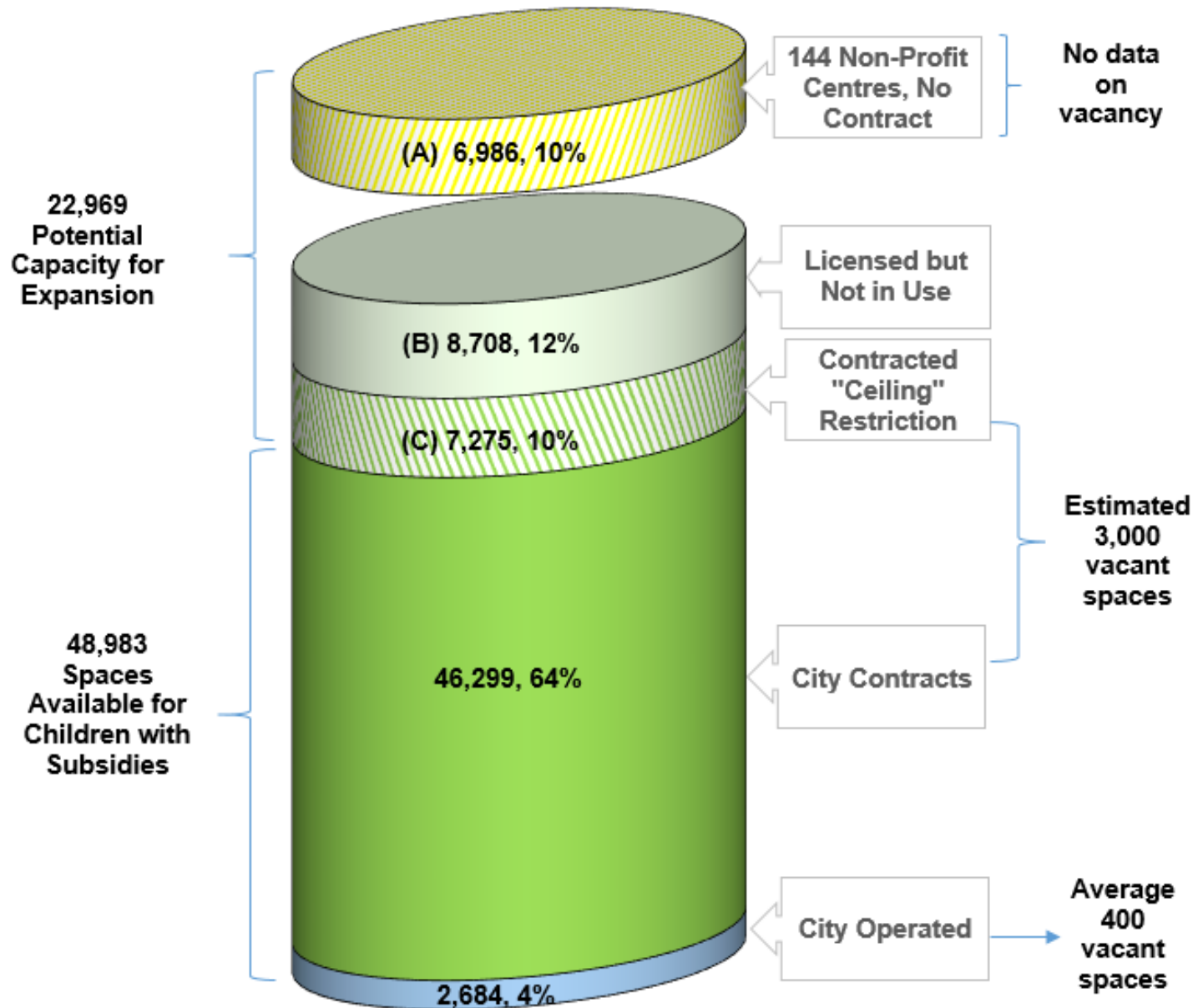
Access to Licensed Spaces

Licensed Spaces

- ▶ 83,587 licensed spaces in the City
 - Includes 198 commercial centres
 - No contract as per Council directive
 - 11,635 spaces

- ▶ 71,952 balance of licensed spaces in the City

71,952 Licensed Child Care Spaces in Toronto



Tracking and Efficiently Using Vacant Spaces

- ▶ 3,000 spaces or 6% in contracted centres are vacant
- ▶ 400 spaces or 16% in City-run centres are vacant in 2017
- ▶ 6,986 spaces in non-profit centres with no contract (some of these could open up for use)
- ▶ 8,708 additional licensed spaces but not in use (some of these could open up for use)

Using More Current Income Information

Eligibility Assessments

- ▶ Pay stubs reflect more current income information than Notice of Assessments
- ▶ Other provincial income-based programs administered by the City use pay stubs to verify income
- ▶ \$214 million for child care fee subsidies in 2017
 - excluding social assistance recipients
- ▶ 13% net overpayment error rate from our audit sample
- ▶ Request the Province to review and consider amending the requirement for income verification

Review City Child Care Centre Costs & Options

Operating Costs of City-run Centres are Higher

- ▶ Previously reported in 2013 by an Independent Consultant:
 - Operating costs of City-run child care centres are 30% higher than non-profit and commercial centres
 - Reducing these centres by 25-75% would save \$3-\$10M/year

Operating Costs of City-run Centres are Higher

- ▶ 2013 consultant report stated that higher operating costs of City-run centres was likely due to higher staff salaries

2017 Sector Wages

- ▶ Ministry's 2017 hourly wage maximum is set at \$26.68 for wage enhancement
- ▶ City Registered Early Childhood Educators (RCEs) hourly pay ranges from \$30.40 to \$37.10
- ▶ RCEs in non-profit at \$22.50

Prices at City-run Centres are Higher

City-Run Centres	Non-Profit Centres	% Higher
\$2,325 for infants	\$1,808 for infants	28%
\$2,070 for toddlers	\$1,429 for toddlers	45%
\$1,570 for preschoolers	\$1,085 for preschoolers	45%

Annual Operating Shortfall of City-run Centres

- ▶ Annual operating revenue does not cover the costs

2017:

Financial Summary of 52 City-Run Centres	\$ (in Millions)
Revenue from Public Fees	\$42.0
Operating Expenditures	\$56.7
Operating Shortfall	\$(14.7)

\$28M in Potential Annual Savings

▶ \$14.7 million

- from stopping the annual operating shortfall of 52 City-run child care centres

▶ \$13.5 million

- saved from lower purchasing price

Savings can be re-invested to improve services:

- add 2,200 more child care subsidies
- improve wages across the sector

Comparison of Provincial Inspection Data Between City-run and Contracted Centres

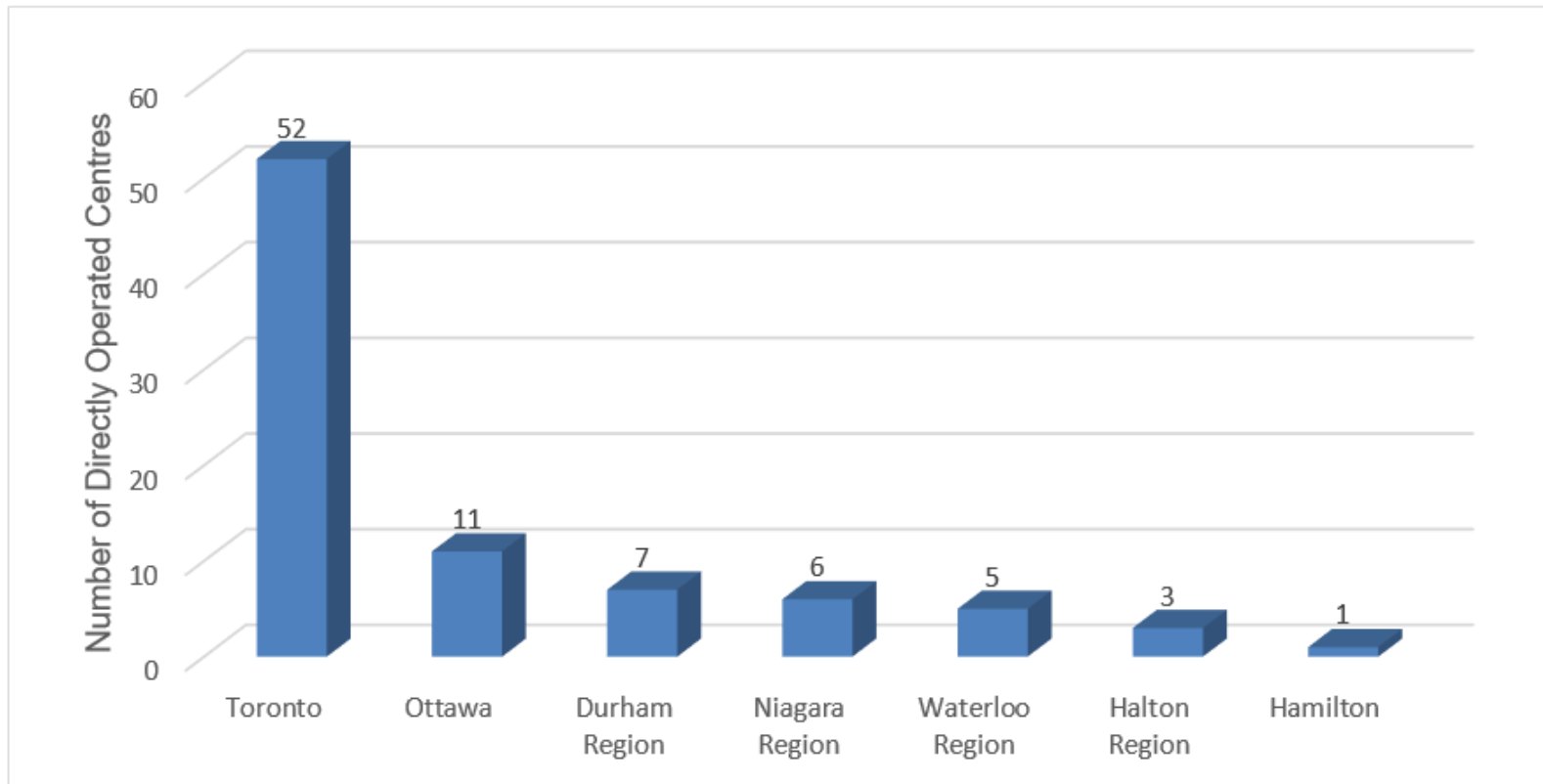
	Centres With AQI Inspections	
Provincial Inspection Results	City-Run Centres	Contract With the City
Centres With Minor or No Issues of Non-Compliance	28 (52.8 %)	314 (49.3 %)
Centres with High or Critical Instances of Non-Compliance	25 (47.2 %)	323 (50.7 %)
Totals	53 (100 %)	637 (100 %)

- ▶ Difference in inspection results between City-run and contracted centres is not statistically significant

Other Jurisdictions

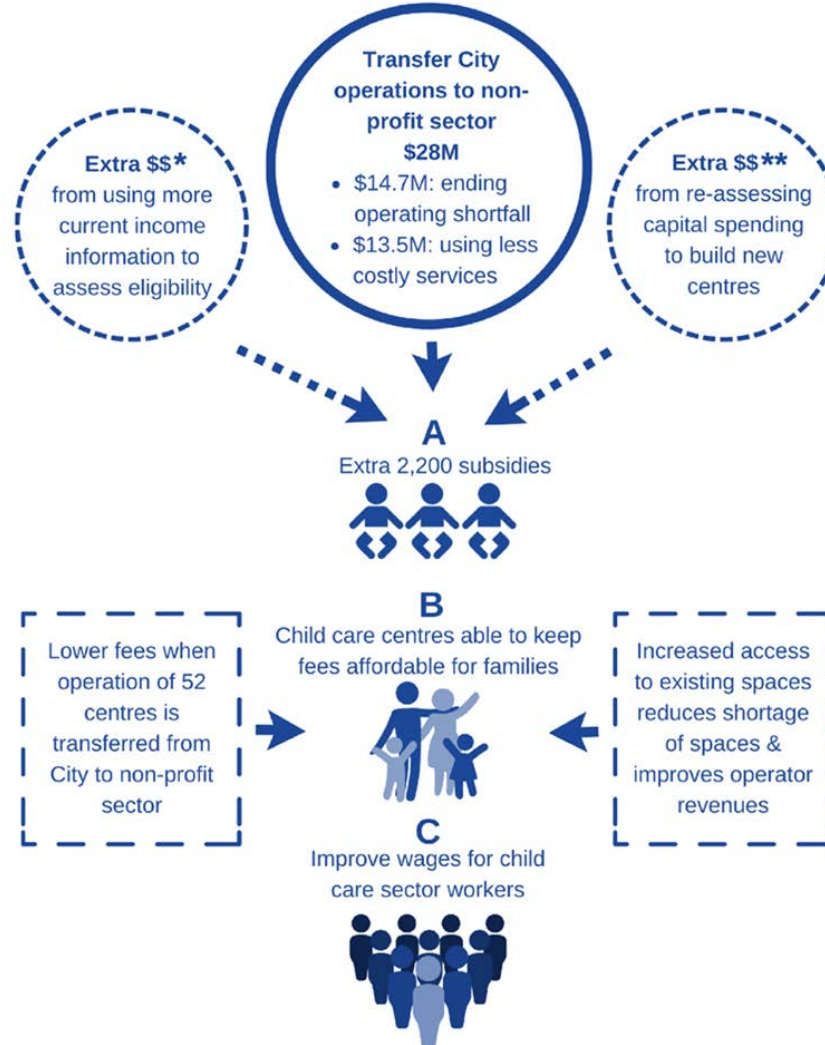
- ▶ Peel Region transferred the operations of 11 child care centres over to community partners
 - presently no wait list
- ▶ Many other Canadian cities do not directly operate child care centres
- ▶ Some Ontario jurisdictions operate child care centres
 - Ottawa will be completing a review of their directly operated child care centres

Ontario Jurisdictions that Operate Child Care Centres



Achieving Greater Value

Potential Financial and Non-Financial Benefits of the Audit's Proposed Changes



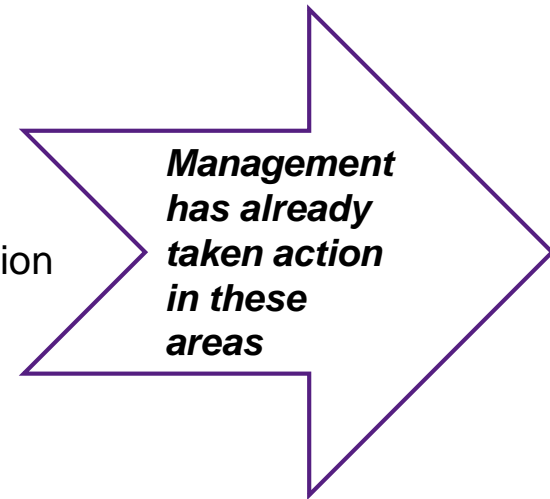
The City could choose option A, B or C, or spend the savings on a combination of all three.

*Potentially millions in savings per year, contingent on changes to the provincial income assessment requirement. **Not able to estimate the amount of reduced capital spending at present, but it could be substantial because the City approved \$49 million to build an additional 1,100 spaces over 10 years.

Suggested Timelines for Audit Recommendations

▶ Short-term (2018)

- breakdown the wait list numbers
- increase access to existing licensed spaces
- expedite the collection of up-to-date vacancy information
- strengthen internal controls



▶ Medium-term (2019)

- City Manager studies alternate service delivery model
- request the Province to review income verification approach for equity
- report to City Council on the need to continue AQI after working with Province

▶ Long-term (2020)

- ▶ vacancy information is used to inform future directions
- ▶ City Manager takes further action to ensure child care services are economically viable

Conclusion

- ▶ 20 recommendations will improve how child care is administered in the City:
 - increase the use of existing spaces and minimize vacancies
 - use current income information to assess eligibility
 - review the transfer of City-run child care operations to the non-profit sector
- ▶ opportunities to make child care more affordable, increase number of subsidies and improve child care sector wages