

Toronto Child Care Funding Model

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| Date: | June 11, 2013 |
| To: | Community Development and Recreation Committee |
| From: | General Manager, Children's Services |
| Wards: | All |
| Reference Number: | |

SUMMARY

This report describes the new provincial child care funding framework that was announced in December, 2012 and defines the way in which municipalities are funded by the Province. The report also outlines the process through which the framework will be customized to create a "made in Toronto" funding model for child care programs and families. Draft principles guiding development of the model and evaluation criteria for assessing various options are presented for Council approval. These principles and criteria reflect input from a diversity of child care stakeholders.

RECOMMENDATIONS

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

1. City Council endorse principles and evaluation criteria contained in Appendix A of this report and instruct staff to use these tools to guide development of a new child care funding model for the City of Toronto; and
2. City Council request the General Manager, Children's Services, to report to the February, 2014 meeting of the Community Development and Recreation Committee on a recommended child care funding model and implementation strategy.

Financial Impact

The adoption of recommendations in this report has no financial impact. The current method of funding of child care operators will continue throughout 2013 and 2014. The new child care funding model will be included in the 2015 Operating Budget submission.

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

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>

ISSUE

A new child care funding framework was proposed in the Provincial *Modernizing Child Care in Ontario* Discussion Paper in June 2012. The City of Toronto had previously identified the need for a new way of funding child care in Ontario, recognizing the impacts of inflationary pressures, Full-Day Kindergarten (FDK), and the need for increased flexibility for municipalities to allocate funding in ways that address local early learning and child care requirements. The City has repeatedly identified the need for an increased number of child care fee subsidies and strategies to address ongoing affordability challenges for many families requiring child care.

BACKGROUND

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 on the discussion paper, a new funding framework (the method of allocating provincial funds for child care among municipalities) was developed and announced in December, 2012.

There are three components to the new framework: Core Service Delivery, Special Purpose Funding and Capital. These three components are reduced from 24 lines of funding under the previous set of rules.

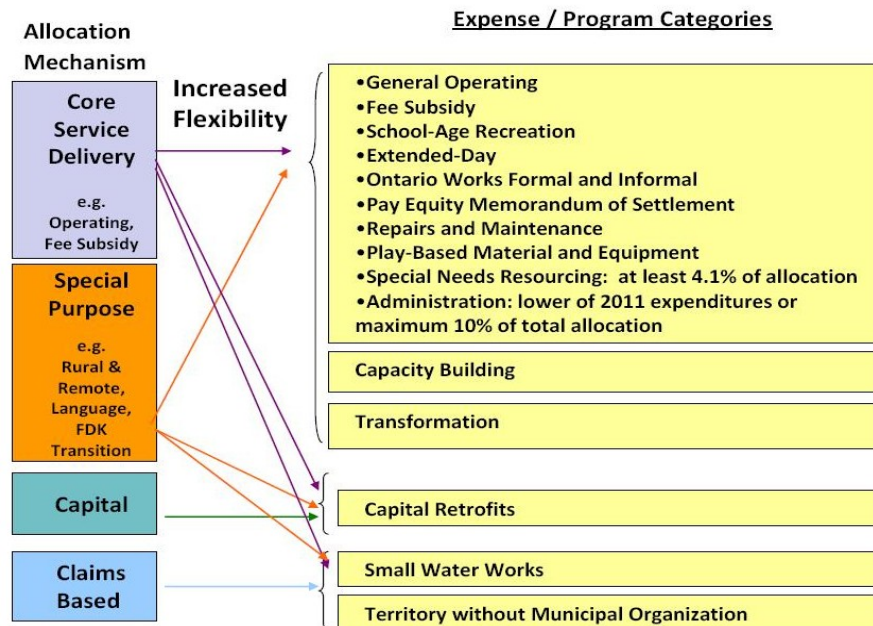
The Core Service Delivery allocation supports child care operating costs and includes a mix of 100 per cent provincial dollars and dollars that must be cost shared with municipalities, with municipalities paying either a 20 or 50 per cent share, depending on its use. The Core Service Delivery Allocation makes up 78 per cent of the total provincial funding and is used to support the availability of licensed child care for all parents; pay equity obligations; access to fee subsidy and special needs resourcing.

The Special Purpose allocation (21 per cent of the total) supplements the Core Service Delivery allocation by supporting the unique costs of providing services in prescribed areas and to certain target populations.

Capital funding, the remaining one per cent, is intended to maintain and improve child care infrastructure, including retrofits, to allow operators to serve younger age groups as four and five year olds move to FDK. In addition, a Utilization funding allocation was introduced. This funding serves as a proxy for demand in municipalities. It recognizes the contributions that municipalities make over their required cost share amount. In its 2013 allocation, Toronto received \$14 million in this category. Special Purpose and Capital funding are 100 per cent provincially funded.

In calculating the funding for each municipality, the Province used a variety of data elements for each of the three components. Some examples are: Child Population, Level of Education Obtained, Language (both French speaking, and non-English or French speaking) and Household Spending. Each of these components is calculated by taking the total of data elements in Toronto as a proportion of the provincial total. As an example, municipalities with a greater percentage of families living below Statistics Canada's Low Income Cut-Off (LICO) received a greater share of the Core Service Delivery allocation. Under the new framework, all additional funding is 100 per cent Province dollars.

The diagram below, taken from the Ontario Child Care Service Management and Funding Guideline 2013, shows the expense categories for each component, and the flexibility that is allowed under the new framework. The arrows indicate where money can be moved from one component to another by municipalities as required.



Ontario Child Care Service Management and Funding Guideline, 2013, p. 10

The Claims-based allocations are for areas without municipal organization and do not apply to Toronto

DISCUSSION

Overall, the child care funding framework will provide a number of benefits to the City. These include:

- increased flexibility to allocate funding based on local needs;
- an increase in the City's share of new provincial funding from approximately 22 per cent, where it has been since 2005, to 30 per cent beginning in 2014;
- simplified reporting requirements and a reduction of 24 funding lines to the three allocation components identified above;
- a provincial commitment to multi-year provincial funding which will see base funding increase over the next three years; and
- a commitment to minor capital funding.

At the same time, there are outstanding issues which Children's Services staff continue to discuss with provincial officials. The new framework does not fully address the financial impacts of FDK on child care operators. Additionally, the provincial position on indexing is not clear and the funding formula does not address the historical shortfall that has resulted from annual cost of living pressures. Children's Services has an annual fiscal pressure of approximately \$7 million due to inflationary costs (a portion of provincial funding is capped at 1995 levels). This has created a shortfall in the base of approximately \$20.0 million, equivalent to approximately 2,000 subsidized spaces. This shortfall is currently met through contributions from the Child Care Expansion Reserve Fund and the division's base operating budget. In a positive step, the Province has indicated that funding for the next three years will increase.

There continues to be a growing wait list for child care fee subsidy in Toronto, which currently stands at approximately 19,000. The first priority in Toronto is to stabilize the current child care system. Provincial allocations do not support the growing demand for fee subsidies in Toronto at this time. The 2013 funding allocation, which was based on the new funding framework, resulted in an increase of provincial funding to the City of \$8.392 million (or 3.1 per cent), with \$7.821 million earmarked for operating expenditures and \$0.571 million to assist operators with capital retrofits. This increase in provincial allocation is insufficient to cover inflation, pressures resulting from the new Ontario Child Care Service Management and Funding Guideline and the 264 new subsidies approved by Council as part of the 2013 Operating Budget Process.

Children's Services has provided comprehensive feedback to the Province on areas of the Guidelines that could be amended. While several amendments have been made, staff continues to work with the Province on addressing outstanding issues. At the same time, with the increased flexibility afforded to municipalities, the City must determine how it will flow funds to operators and parents.

This is an opportunity for the City, 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.

Funding Model Development Process

Generally, the City funds operators through fee subsidies and base funding. While fee subsidy directly supports families who are eligible for support, base funding supports the overall child care centre by reducing fees for all families enrolled in the centre. Currently, the City supports base funding in licensed child care through the administration of provincially-mandated wage subsidy funding. The City also base funds school occupancy costs for approximately 400 child care centres located in schools.

Through the new Provincial framework, the City proposes to revise its funding model to better reflect the needs of the Toronto child care system. This endeavour is critical to the sustainment of child care in Toronto. Over the next eighteen months, the City will undergo a thorough process in developing the new model. The process will include community and stakeholder engagement, principles and funding model option development and comprehensive analysis.

The way operators receive money from the City will remain unchanged for 2013 and 2014. The new "made in Toronto" child care funding model will come into effect on January 1, 2015. Currently, there is no preferred model being endorsed by the City. Throughout 2013 and 2014, Children's Services will engage in extensive community consultation and communication in three phases: first, to develop principles and evaluation criteria; second to discuss the merits of different models, according to the principles and criteria; and third to develop an implementation plan, including a transition strategy for operators. At each stage, feedback and input from the community and stakeholders will be gathered and recommendations will be made to City Council through Community Development and Recreation Committee. At all times, this process will align with the principles of the Child Care Service Plans.

In developing the new funding model, the Children's Services Division is committed to:

- engage in a transparent process;
- conduct comprehensive stakeholder engagement and consultation;
- provide information in a timely manner to our partners, stakeholders and the public;
- consider the socio-economic effects along with broader community and societal impacts of child care funding model options;
- align with the City's interest in an integrated human services delivery model; and
- consider the impacts of a new model on existing service providers and develop a transition and implementation plan as appropriate.

Consultation sessions on principles and evaluation criteria have been held with Children's Services staff; the Toronto Child and Family Network Steering Committee and planning committee representatives; Aboriginal and Francophone committees; and District Child Care Advisory Committees (made up of child care operators). Ipsos was retained to assist with some of the consultations. In total, approximately 300 participants attended these sessions.

Principles have also been reviewed by a number of groups established to guide the development of the new model, including:

- a Stakeholder Reference Group that represents child care operators and provides advice on the development of the new model;
- an Advisory Committee that includes economists, academics, researchers and sector experts to provide expert advice from a systems perspective; and
- a GTA Modelling Working Group made up of children's services staff from other municipalities, which shares research, approaches and modelling/analysis.

Overall, the proposed funding model principles and evaluation criteria were supported by stakeholders. Stakeholders requested additional information on the details of the model and the implementation strategies and identified the need for additional funding from the Province to sustain the system. The importance of proactive communication to provide clarity and transparency on the process was highlighted and confirmed the importance of the three phases of engagement. Operators also noted that how the principles are applied will be critical to determining the success of the new funding model.

Draft principles and criteria for evaluation have been revised based on these consultations and are attached as Appendix A for Council approval. Three of the initial principles presented to stakeholders were identified as assumptions associated with development of the model and have been moved to the assumptions section of the appendix. Three new principles were added to reflect feedback from the consultations to address the importance of the early learning and child care workforce and the unique nature of aboriginal and french communities. Over the course of the project, parents will be surveyed to identify issues that are important to them. Results of this survey will inform the models that are analyzed and the next Child Care Service Plan.

Children's Services will report to Community Development and Recreation Committee in February, 2014 on a proposed funding model and implementation plan. The rest of 2014 will be dedicated to preparing for implementing the new funding model in January 2015.

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SIGNATURE

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ATTACHMENTS

Appendix A – Draft Child Care Funding Model Assumptions, Principles and Evaluation
Criteria

Appendix A
Draft Toronto Child Care Funding Model
Assumptions, Principles and Evaluation Criteria

Assumptions

The City's development of funding model options will be based on these assumptions.

1. The new child care funding model will be aligned with the Toronto Child Care Service Plan and follow City policies and directives.
2. The new model will reflect the overall provincial policy framework for early learning and child care.
3. The new model will leverage and seek partnerships with government and community partners to support service integration.
4. The new model will be regularly evaluated to ensure system stability and continuous improvement.

Proposed Funding Model Principles

1. The new model will support Toronto's vision for children*.
2. The new model will balance parent accessibility 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.

*adopted by City Council November 1999

Proposed Evaluation Criteria

Evaluation criteria are standards or benchmarks against which the funding model options will be measured. Funding model options will be evaluated against the following five criteria, from three perspectives, families and children, overall child care system, and service delivery:

- Effective
- Efficient
- Equitable
- Sustainable
- Accountable

Child Care Funding Model Glossary

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| Accessibility | The availability of child care spaces and subsidy when and where a family needs it. It also refers to the ability to meet a range of children's needs. |
| Accountability | The obligations of organizations who receive public funds to be answerable for fiscal and social decisions. It also refers to the responsibility of the system manager for managing the system effectively and efficiently. |
| Effectiveness | The degree to which a service achieves publicly-adopted goals, objectives and outcomes that are meaningful, realistic and achievable. |
| Efficiency | The extent to which resources are productively used to deliver a service. |
| Equity | The degree to which the funding model fairly distributes resources among City wards, age groups and/or other criteria. It also refers to how families are treated within the current processes, such as adherence to first come-first-served policy. |
| Quality | Formal early childhood settings and processes which promote healthy child development while supporting parents in the balancing of work and family responsibilities. Within the Toronto context, "quality" is defined by exceeding the minimum expectations set out in the Operating Criteria. |