



Children's Services I: 2014 OPERATING BUDGET OVERVIEW

What We Do

Toronto Children's Services promotes access to high quality early learning, and provides child care and supports for families through a well-planned and managed system.

All families in Toronto benefit from a range of services that promote healthy child development and family well-being.

2014 Budget Highlights

The total cost to deliver this Program to Toronto residents in 2014 is \$403.463 million gross and \$76.716 million net as shown below:

(In \$000s)	Approved 2013 Budget	Recommended 2014 Budget	Change	
			\$	%
Gross Expenditures	402,335.5	403,462.7	1,127.2	0.3%
Gross Revenue	325,619.0	326,746.3	1,127.3	0.3%
Net Expenditures	76,716.5	76,716.4	(0.1)	0.0%

For 2014, Children's Services identified \$11.2 million in opening budget pressures, including inflationary increases, and \$3.1 million in additional costs due to the requirement to increase staff ratios to accommodate younger children in City operated centres with the implementation of Full Day Kindergarten (FDK). These pressures were offset by a series of expenditure reductions and revenue increases bringing the 2014 Recommended Operating Budget to the same level as 2013.

Contents

I: Overview	1
II: Recommendations	4
III: 2014 Service Overview and Plan	5
IV: 2014 Recommended Total Operating Budget	10
V: Issues for Discussion	16

Appendices:

1) 2013 Service Performance	21
2) Recommended Budget by Expense Category	23
3) Summary of 2014 Service Changes	N/A
4) Summary of 2014 New & Enhanced Service Changes	N/A
5) Inflows/Outflows to / from Reserves & Reserve Funds	27
6) 2014 User Fee Rate Changes	28

Contacts

Ritu Sadana
Manager, Financial Planning
Tel: (416) 395-6449
Email: rsadana@toronto.ca

John Forsyth
Senior Financial Planning Analyst
Tel: (416) 392-5198
Email: jforsyt0@toronto.ca

Fast Facts

- 52 Toronto Early Learning Child Care Centres directly operated by the City
- Service delivery managed through 4 district offices
- 949.7 positions, including 12 capital positions dedicated to enhancing IT systems
- 23.7 early childhood educator positions added in 2014 to manage case mix changes in directly operated centres

Trends

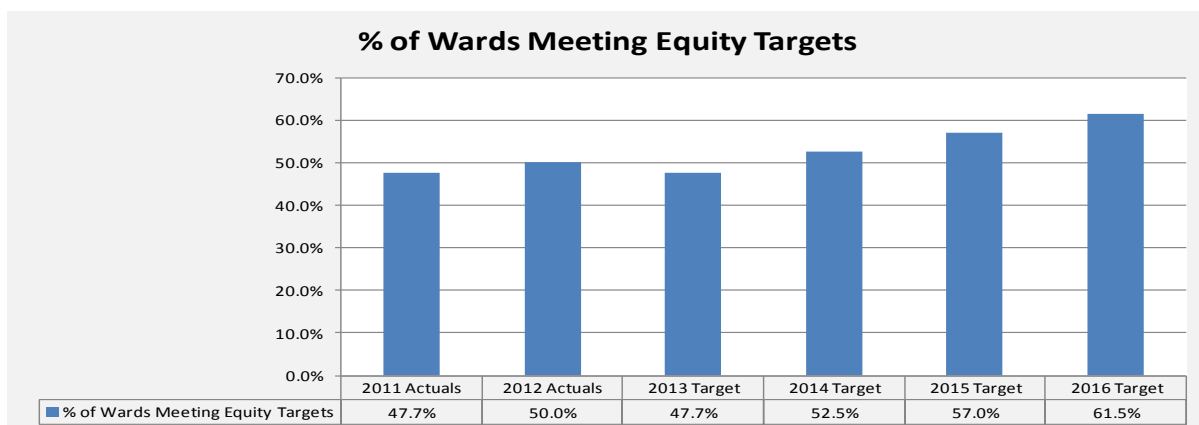
- Increase in Wards meeting equity targets from 47.7% in 2011 to projected 61.5% by 2016
- 2014 final year for transition to Full Day Kindergarten, with an additional pressure resulting from the need to increase spaces for infants and toddlers
- Continued pressure on system for service with 19,000 children on the waitlist for fee subsidy

Our Service Deliverables for 2014

Children's Services is responsible for managing Toronto's Child Care system in accordance with the Council approved Child Care Service Plan and provincial Guidelines.

The 2014 Operating Budget will fund the delivery of the following:

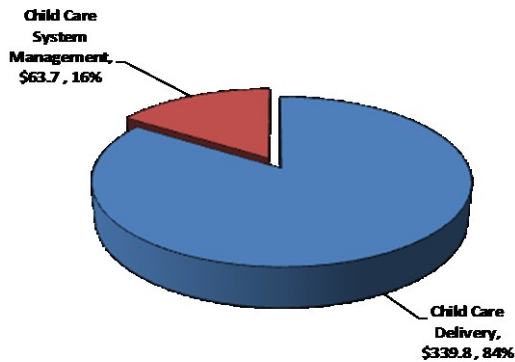
- 24,264 child care subsidies
- 583 contracted child care centres with contracts for fee subsidy
- 9 home child care agencies with fee contracts for subsidy
- 97 additional child care centres with contracts for wage subsidy and wage improvement
- 52 Toronto Early Learning and Child Care Services centres, and one home child care agency
- 46 family resource centres
- 34 summer day programs
- 29 After School and Recreation Programs (ARC)



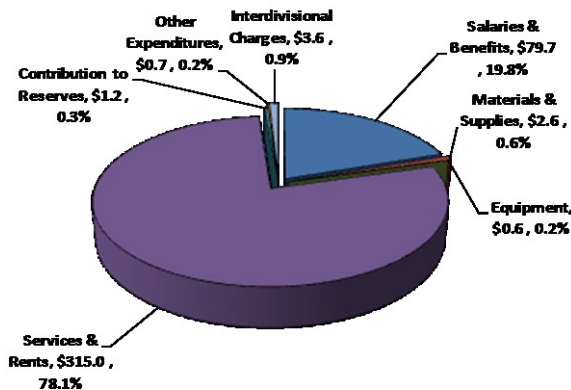
2014 Budget Expenditures & Funding

Where the money goes:

2014 Operating Budget by Service
\$403.463 Million

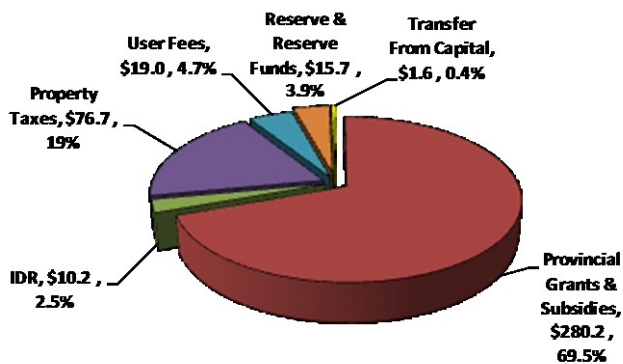


2014 Operating Budget by Expenditure Category



Where the money comes from:

2014 Operating Budget Funding Source
\$403.463 Million



Our Key Challenges and Priority Actions

- Develop a "made in Toronto" funding model for child care delivery
 - Maintaining current service levels relies on support from reserve fund that will be depleted in 2015
 - Continue to implement the Service Efficiency recommendations that include streamlining and automating budget process and automating systems applications to produce efficiency savings

- Increase in the cost of subsidized spaces reflecting the need to increase staff ratios as younger children replace older children leaving the system for Full Day Kindergarten
 - Continue discussions with the Province on legislative and regulatory changes
 - Continue working with community partners to administer the final year of implementation of Full Day Kindergarten

II: RECOMMENDATIONS

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. City Council approve the 2014 Recommended Operating Budget for Children's Services of \$403.463 million gross and \$76.716 million net, comprised of the following services:

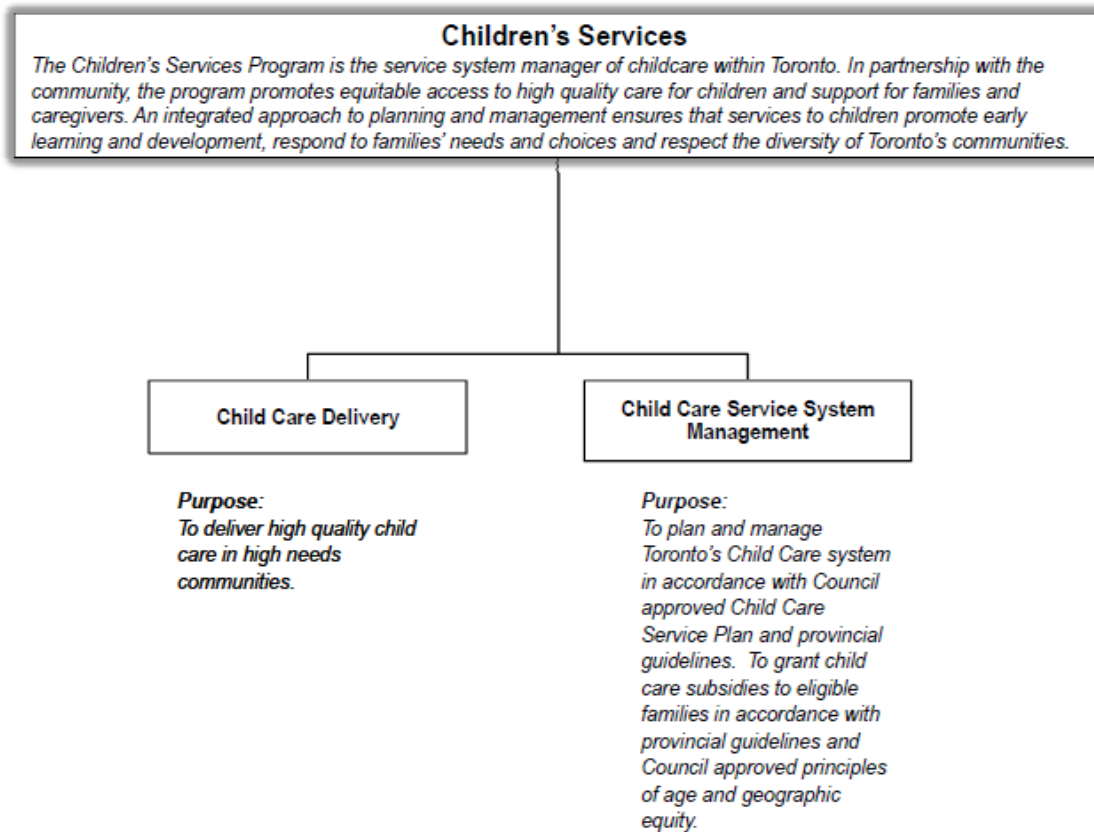
<u>Service:</u>	<u>Gross</u> <u>(\$000s)</u>	<u>Net</u> <u>(\$000s)</u>
Child Care Delivery	339,791.1	65,982.6
Child Care System Management	63,671.6	10,733.8
	<hr/>	<hr/>
Total Program Budget	<u>403,462.7</u>	<u>76,716.4</u>

2. City Council approve the 2014 recommended service levels for Children's Services as outlined on page 7 - 9 and the associated staff complement of 949.7 positions.
3. City Council request the General Manager of Children's Services report back to the Budget Committee through the Community and Development Committee on the details of the 2013-14 Provincial funding allocation, and that the 2014 Approved Operating Budget be amended accordingly, once the details are available.

III: 2014 SERVICE OVERVIEW AND PLAN

Program Map

Toronto Children's Services promotes access to high quality early learning, child care and supports for families through a well-planned and managed system.



Service Customer

- Child Care Delivery**
- Parents / Guardians
 - Children in Child Care
 - Child Care Service Providers
 - Families and Children

- Child Care Service System Management**
- Parents / Guardians
 - Province of Ontario
 - Child Care Service Providers
 - Children in Child Care
 - Families and Children

2014 Service Deliverables

The 2014 Recommended Operating Budget of \$403.463 million gross and \$76.716 million net will fund the delivery of the following:

- 24,264 child care subsidies.
- 583 contracted child care centres with contracts for fee subsidy.
- 9 home child care agencies with contracts for fee subsidy.
- 97 additional child care centres with contracts for wage subsidy and wage improvement.
- 52 Toronto Early Learning and Child Care Services and one home child care agency.
- 46 family resource centres.
- 34 summer day programs
- 29 After School and Recreation Programs (ARC)

Service Profile: Child Care Delivery



What we do

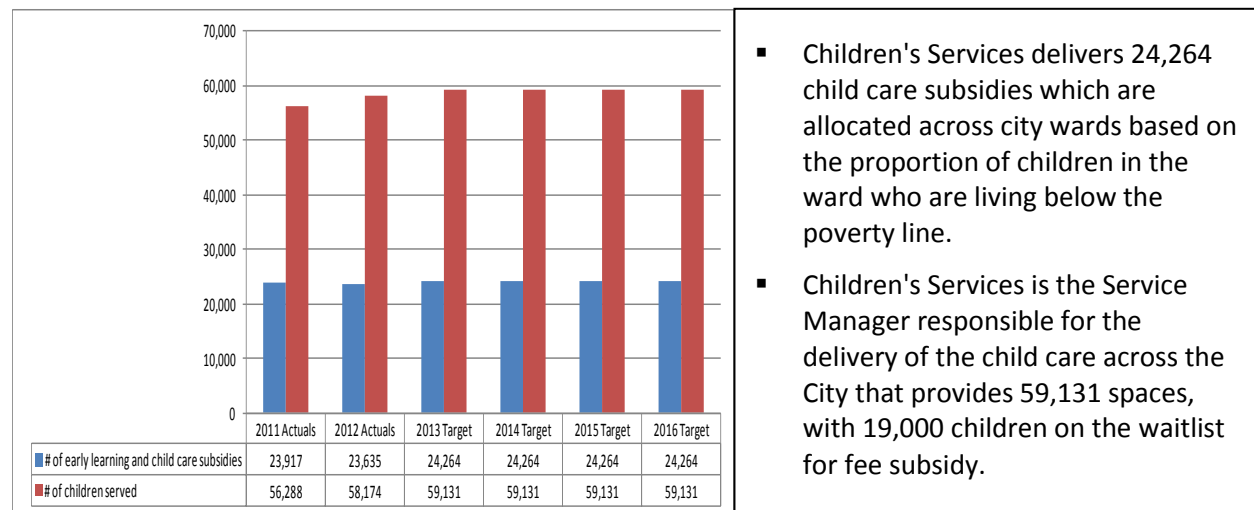
- Provide 24,264 fee subsidies to help eligible families with the high cost of early learning and care;
- Provide Family Well-Being Support services, which include supports to families to address their personal circumstances or special need;
- Deliver child care directly through the Toronto Early Learning and Child Care Services that provides enriched early learning and care service to families in high-risk and under-served neighbourhoods with a focus on skill development and school readiness.

2014 Recommended Service Levels

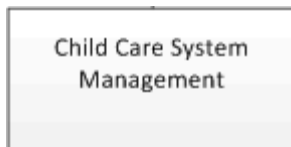
Type	Sub-Type	Status	Service Levels			
			2011	2012	2013	2014 Recommended
Early Learning and Care Information		Approved	annual			
Enriched Early Learning and Care	School aged Children	Approved	94% of the 98% occupancy target achieved			
	Kindergarten aged Children	Approved	98% of the 98% occupancy target achieved			
	Pre-School Children	Approved	98% of the 98% occupancy target achieved	99% of the 98% occupancy target achieved	96% of the 98% occupancy target achieved	96% of the 98% occupancy target achieved
	Toddlers	Approved	96% of the 98% occupancy target achieved	98% of the 98% occupancy target achieved	96% of the 98% occupancy target achieved	96% of the 98% occupancy target achieved
	Infants	Approved	100% of the 98% occupancy target achieved			
Family Financial Support	Wage Subsidy	Approved	annual			
	Special Needs Subsidy	Approved	annual			
	Child Care Fee Subsidy	Approved	annual			
	Family Resource Centre Subsidy	Approved	annual			
	City Funded Grants	Approved	annual			
Family Well-Being Support Care		Approved	annual			

Service Performance Measures

Output Measure: *Number of Early Learning and Child Care Subsidies*



Service Profile: Child Care System Management



What we do

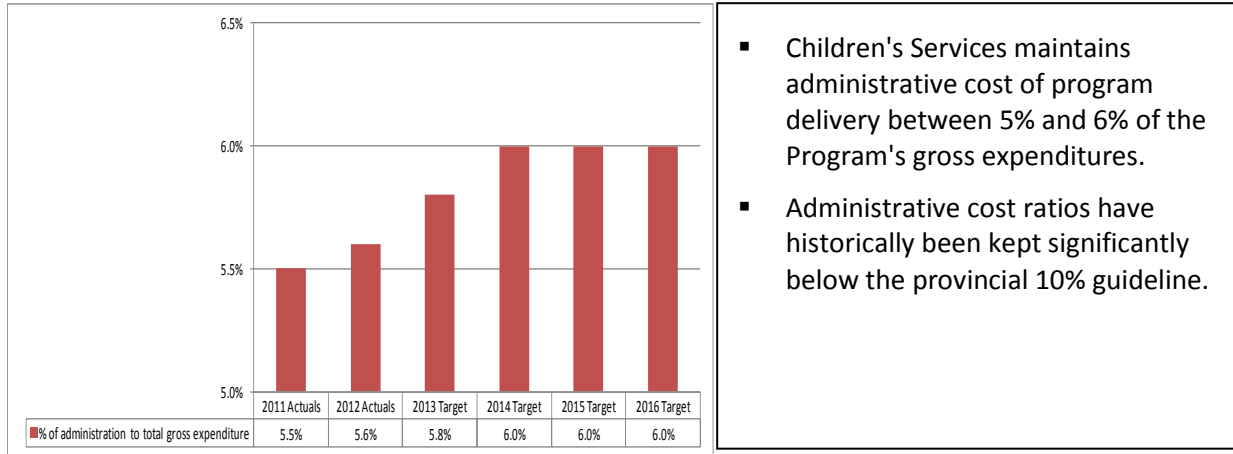
- Plan and manage Toronto's Child Care system in accordance with the Council approved Child Care Service Plan and provincial guidelines.
- As Consolidated Municipal Service Manager (CMSM) for the City of Toronto, plan and implement policies and programs within the provincial legislative framework that are designed to meet specific local requirements. In this capacity, the City develops and implements planning processes and programs to address service gaps and ensure that local goals are met.
- Through administration of Best Start Wage Improvement, Wage Subsidy, Pay Equity and Occupancy grants, enable providers to maintain affordability of child care services, and build relationships with stakeholders, including community agencies, other levels of government, school boards and families.

2014 Recommended Service Levels

Type	Sub-Type	Status	Service Levels			
			2011	2012	2013	2014 Recommended
Integrated Service System Planning	Service Plan	Approved	100%			
	Service Plan - Curriculum Development	Approved	100%			
	Service Plan - Policy Development	Approved	100%			
	Children's Report Card	Approved	quarterly			
Early Learning and Care Quality		Approved	annual			
Early Learning and Care Capacity		Approved	annual			
Research and Innovation		Approved	annual			
Service Providers Financial Support		Approved	quarterly			

Service Performance Measures

Efficiency: Administration as a Percentage of Total Gross Expenditure



- Children's Services maintains administrative cost of program delivery between 5% and 6% of the Program's gross expenditures.
- Administrative cost ratios have historically been kept significantly below the provincial 10% guideline.

IV: 2014 Recommended Total Operating Budget

2014 Recommended Operating Budget (In \$000s)

(In \$000s)	2013		2014 Recommended Operating Budget			2014 Rec'd vs. 2013 Approved Budget Changes		Incremental Change 2015 and 2016 Plan			
	Approved Budget	Projected Actual	2014 Rec'd Base	2014 Rec'd New/Enhanced	2014 Rec'd Budget	\$	%	2015		2016	
By Service	\$	\$	\$	\$	\$	\$	%	\$	%	\$	%
Child Care Delivery											
Gross Expenditures	334,564.0	334,564.0	339,791.1		339,791.1	5,227.1	1.6%	7,973.9	2.3%	5,964.9	1.7%
Revenue	268,581.3	268,581.3	273,808.5		273,808.5	5,227.2	1.9%	529.3	0.2%	(11,086.6)	-4.0%
Net Expenditures	65,982.7	65,982.7	65,982.6		65,982.6	(0.1)	0.0%	7,444.6	11.3%	17,051.5	23.2%
Child Care System Management											
Gross Expenditures	67,771.5	67,771.5	63,671.6		63,671.6	(4,099.9)	-6.0%	1,457.1	2.3%	1,375.6	2.1%
Revenue	57,037.7	57,037.7	52,937.8		52,937.8	(4,099.9)	-7.2%	(192.0)	-0.4%	(739.6)	-1.4%
Net Expenditures	10,733.8	10,733.8	10,733.8		10,733.8	(0.0)	0.0%	1,649.0	15.4%	2,115.2	17.1%
Total											
Gross Expenditures	402,335.5	402,335.5	403,462.7		403,462.7	1,127.2	0.3%	9,431.0	2.3%	7,340.5	1.8%
Revenue	325,619.0	325,619.0	326,746.3		326,746.3	1,127.3	0.3%	337.3	0.1%	(11,826.2)	-3.6%
Total Net Expenditures	76,716.5	76,716.5	76,716.4		76,716.4	(0.1)	0.0%	9,093.7	11.9%	19,166.7	22.3%
Approved Positions	931.4	931.4	949.7		949.7	18.3	2.0%	(4.0)	-0.4%	(1.0)	-0.1%

The 2014 Recommended Operating Budget for Children's Services of \$403.463 million gross and \$76.716 million net is comprised of the following services:

The Child Care Delivery service is \$65.983 million net, which is equivalent to the 2013 Approved Operating Budget.

- Base budget changes reflect an increase in the gross expenditures of \$5.227 million or 1.6% with an offsetting revenue change of \$5.277 million or 1.9%. The base changes include inflationary increases in the cost of delivering child care, and increases reflecting a change in staffing ratios to accommodate Full Day Kindergarten implementation. These pressures are offset by service efficiencies, including budget reductions to reflect actual experience, and reductions arising from changes in dietary services delivery model from in-house food preparation to catered food service.
- The increase in revenue of \$5.227 million is from a combination sources, including an increase in the contribution from the Child Care Expansion Reserve Fund, an increase in family contributions from full fee parents, and an increase in Provincial revenue.
- Future year incremental costs are primarily attributable to increases in salary and benefits of and inflationary increases in cost of providing child care of \$6.870 million in 2015 and \$6.682 million in 2016.

The Child Care System Management service is \$10.734 million net, which is equivalent to the 2013 Approved Operating Budget.

- Base Budget changes include a reduction in the gross expenditures of \$4.245 million, reflecting the completion of grants for the construction of Thorncliffe Park and Terry Tan

child care centres. These reductions are offset by inflationary increases for salary and benefits of \$0.145 million.

- Future year incremental costs are primarily attributable to increases in salary and benefits.

Approval of the 2014 Recommended Budget will result in an increase in the staff complement of 18.3 positions, from 931.4 to 949.7 as highlighted below:

2014 Recommended Total Staff Complement

Changes	2014 Budget	2015 Plan	2016 Plan
Opening Complement	931.4	949.7	945.7
In-year Adjustments			
Adjusted Staff Complement	931.4	949.7	945.7
Recommended Change in Staff Complement			
- Temporary Complement - capital project delivery	4.0	(4.0)	(1.0)
- Operating impacts of completed capital projects			
- Service Change Adjustments			
- New / Enhanced	14.3		
Total	949.7	945.7	944.7
% Change over prior year	2.0%	(0.4%)	(0.1%)

The net increase of 18.3 positions arises from the following changes:

- Due to the implementation of Full Day Kindergarten an increase of 23.7 early childhood educator positions in the City's 52 municipally operated centre is required to reflect the increased staff ratios, as additional space is provided for infants and toddlers, offset by a reduction in pre-school spaces;
 - Reduction of 9.4 food service positions is required to reflect the change in the dietary services delivery model from in-house food preparation to catered food service delivery in 13 of the City operated child care centres.
- *Temporary Complement – Capital Project Delivery*
 - Four additional positions are required in 2014 to deliver the new Service Efficiency Study CSIS Implementation project, included in the 2014-2023 Recommended Capital Budget and Plan.
 - The 2015 Plan includes a net reduction of four positions for the delivery of capital project: two additional positions are required to deliver the Service Efficiency Study CSIS Implementation project, offset by a reduction of six positions due to the completion of the CSIS IT project.
 - The 2016 Plan includes a reduction of one Project Manager SOGR position, representing a change in funding from the Capital Budget to funding from the Operating Budget, making the position permanent.

2014 Recommended Base Budget

(In \$000s)

(In \$000s)	2013 Approved Budget	2014 Rec'd Base	Change		Incremental Change			
			2014 Recommended Base vs. 2013 Approved Budget		2015 Plan		2016 Plan	
By Service	\$	\$	\$	%	\$	%	\$	%
Child Care Delivery								
Gross Expenditures	334,564.0	339,791.1	5,227.1	1.6%	7,973.9	2.3%	5,964.9	1.7%
Revenue	268,581.3	273,808.5	5,227.2	1.9%	529.3	0.2%	(11,086.6)	-4.0%
Net Expenditures	65,982.7	65,982.6	(0.1)	0.0%	7,444.6	11.3%	17,051.5	23.2%
Child Care System Management								
Gross Expenditures	67,771.5	63,671.6	(4,099.9)	-6.0%	1,457.1	2.3%	1,375.6	2.1%
Revenue	57,037.7	52,937.8	(4,099.9)	-7.2%	(192.0)	-0.4%	(739.6)	-1.4%
Net Expenditures	10,733.8	10,733.8	0.0	0.0%	1,649.1	15.4%	2,115.2	17.1%
Total								
Gross Expenditures	402,335.5	403,462.7	1,127.2	0.3%	9,431.0	2.3%	7,340.5	1.8%
Revenue	325,619.0	326,746.3	1,127.3	0.3%	337.3	0.1%	(11,826.2)	-3.6%
Net Expenditures	76,716.5	76,716.4	(0.1)	0.0%	9,093.7	11.9%	19,166.7	22.3%
Approved Positions	931.4	949.7	18.3	-4.0%	(4.0)	-0.4%	(1.0)	-0.1%

The 2014 Recommended Base Budget of \$403.463 million gross and \$76.716 million net is equivalent to the 2013 Approved Budget of \$76.716 million net.

The 2014 Recommended Base Budget provides \$6.296 million net in base budget pressures, which were completely offset by base expenditure savings of \$5.721 million and revenue increases of \$0.575 million.

Key cost drivers resulting in base budget pressures of \$6.296 million are detailed in the table below.

Key Cost Drivers

(In \$000s)

(In \$000s)	2014 Rec'd Base Budget
Gross Expenditure Changes	
Prior Year Impacts	
Economic Factors	
Non-payroll increase, primarily COLA for purchased child care services	7,038.0
COLA and Progression Pay	
COLA	1,041.0
Progression Pay	308.0
Benefits	1,147.0
Service Changes	
Realignment of salaries (position reclassification)	(437.0)
Salary and Benefits increase to reflect increase in child care staff ratios due to FDK	2,100.0
Total Changes	11,197.0
Revenue Changes	
Increase in Reserve Draw to fund Program Shortfall and transition to FDK	3,901.0
Increase in user fees	1,000.0
Total Changes	4,901.0
Net Expenditures	6,296.0

In order to offset the above pressures, base expenditure reductions of \$6.296 million are recommended and detailed as below:

2014 Recommended Service Change Summary by Program
(In \$000s)

Description (\$000s)	2014 Recommended Service Changes				Net Incremental Impact			
	Position Change	Gross Exp.	Net Expense	% Change over 2014 Budget	2015		2016	
					Net Expense	Pos.	Net Expense	Pos.
#	\$	\$	%	\$	#	\$	#	
Base Changes:								
Base Expenditure Changes								
<i>Reduction in Expenditures to Reflect Actual Experience:</i>								
<i>Reduce the Non-Labour inflation</i>		(1,278.0)	(1,278.0)	(1.7%)				
<i>Change in Food Service Delivery - annualized savings</i>	(9.4)	(1,036.0)	(1,036.0)	(1.4%)				
Base Expenditure Change	(9.4)	(5,721.0)	(5,721.0)	(7.5%)				
Base Revenue Changes								
<i>Increase in Family Fee Revenue</i>			(83.0)	(0.1%)				
<i>Increase in Provincial funding</i>			(492.0)	(0.6%)				
Base Revenue Change			(575.0)	(0.7%)				
Sub-Total								
Total Changes	(9.4)	(5,721.0)	(6,296.0)	(7.5%)				

The 2014 recommended service changes consist of base expenditure changes of \$5.721 million net, and revenue changes of \$0.575 million net. In total, the Program has achieved reductions of \$6.296 million net, bringing the 2014 Recommended Base Budget to \$76.717 million net, which is equal to the 2013 Approved Budget of \$402.336 million gross and \$76.716 million net.

Base Expenditure Changes: (Savings of \$5.721 million gross and \$5.721 million net)

Reduction in Expenditures to Reflect Actual Experience:

- After a detailed review of actual expenditure trends, reductions of \$1.278 million gross and net are recommended, with reductions of \$0.465 million in food-service costs, \$0.463 million in facility-occupancy costs, and \$0.350 million in contracted services, primarily comprised of technology-related telephone expenditures and property operational costs.

Absorb Non-Labour Economic Factor

- Children's Service initially submitted an increase of 2.2% in non-labour inflationary cost increases of \$7.038 million, which primarily funds the inflationary costs for purchased child care; \$3.407 million of this increase will be absorbed, while maintaining the delivery of 24,264 child care subsidies.

Change in Food Service Delivery Model

- An additional \$1.036 million will be realized as a result of changing the food service delivery model from in-house food preparation to catered food service, resulting in a reduction of 9.4 food service positions.

Base Revenue Changes: (Revenue of \$0.575 million)*Increase in Provincial Funding*

- Additional revenue of \$0.492 million has been budgeted as a 2014 Provincial base funding increase, offset by a reduction following confirmation of capital grant funding. (Please see discussion in Issue Section pg 19)

Increase in Family Fee Revenues:

- The increase in family user fee revenues of \$0.083 million reflects the increase in fees received from full-fee families whose children attend a municipal child care centre. The fee increase is required to be in compliance with Provincial guidelines requiring that fees be charged on a full cost recovery basis, as approved by City Council July 11-13, 2012 (CD14.5). The fees for older children have traditionally cross-subsidized those younger children. The move to Full Day Kindergarten has eliminated this cross-subsidization and caused fees to increase. A total increase of \$0.250 million is being phased in from 2013 through 2016.

**2015 and 2016 Plan
(In \$000s)**

Description (\$000s)	2015 - Incremental Increase					2016 - Incremental Increase				
	Gross Expense	Revenue	Net Expense	% Change	# Positions	Gross Expense	Revenue	Net Expense	% Change	# Positions
Known Impacts:										
Progression Pay	322.2		322.2			325.1		325.1		
Step Increases										
COLA and Fringe Benefits	1,985.2		1,985.2			386.2		386.2		
Annualization										
Operating Impact of Capital	253.3	253.3			2.0	(53.0)	(53.0)			(1.0)
Revenue		84.0	(84.0)							
Other: Actual Cost of Child Care	6,870.3		6,870.3			6,682.1		6,682.1		
Other: Depletion of Child Care Expansion Reserve Fund							(11,773.2)	11,773.2		
Total Incremental Impact	9,431.0	337.3	9,093.7		2.0	7,340.5	(11,826.2)	19,166.7		(1.0)

Approval of the 2014 Recommended Budget for Children's Services will result in 2015 and 2016 incremental increase of \$9.094 million net and \$19.167 million net, respectively, to maintain the 2014 recommended level of service.

Future year incremental costs are primarily attributable to the following:

Known Impacts

- COLA, Progressive Pay and Fringe Benefits are estimated to increase by \$2.307 million in 2015, with increases for Progression Pay and Fringe Benefits of \$0.711 million in 2016.

- *Operating Impact of Capital* reflects an increase in salaries and benefits of \$0.253 million gross \$0 net and an increase of two positions in 2015, with a reduction in salaries and benefits of \$0.053 million gross and \$0 net for the reduction of one position in 2016. These changes reflect the completion of the CSIS IT project, and the rollout of the Service Efficiency Study CSIS Implementation project in 2015 and 2016.
- *Revenue* will increase by \$0.084 million in 2015 reflecting the third year of a phased-in increase in full-fee families to recover the full cost of the provision of child care in the Toronto Early Learning Child Care System (TELCCS).
- *Other: The Actual Cost of Child Care* is projected to increase by \$6.870 million in 2015 and by \$6.682 million in 2016 to reflect the COLA increase for purchased child care.
- *Other: The Child Care Expansion Reserve Fund* will be depleted at the end of 2015, resulting in a \$11.773 million pressure that must be addressed in 2016.

V: ISSUES FOR DISCUSSION

2014 Issues

New Provincial Funding Framework

In previous years, Children's Services received Provincial funding through a cost sharing agreement in which the Province provided funding on a 50/50, 80/20 and 100% basis, with subsidy allocated through a structure that included the following components: recovery of administrative costs, special needs, wage subsidy, high needs subsidy, and Ontario Works.

In 2012, the Province introduced the new child care funding model, which starting in 2013, provides subsidy through the following framework: Core Service Delivery, Special Purpose Funding and Capital. This funding structure has been used to determine the 2014 shortfall calculation.

As noted below, the 2014 shortfall is projected to be \$13.863 million, which will continue to increase as a result of annual cost of inflation.

2014 Operating Budget Shortfall Projection			
	Provincial Subsidy Required	Provincial Subsidy	Provincial Subsidy Shortfall
Administration	14,868.9		
Programs:			
Special Needs	11,982.8		
Wage Subsidies, inc Pay Equity	41,542.4		
Subsidized Child Care - High Level	203,005.0		
Ontario Works	16,426.3		
Core Service Delivery - Unallocated	287,825.4	274,366.6	13,458.8
Family Resource Programs	2,104.4	1,700.4	404.0
Capacity Building	958.1	958.1	0.0
Transformation	1,468.8	1,468.8	0.0
Capital Retrofits	1,720.9	1,720.9	0.0
Special Purpose - Allocated	6,252.2	5,848.2	404.0
Total Requirement	294,077.6	280,214.8	13,862.8

Overall, the new funding framework will provide a number of benefits to the City, including: increased flexibility to allocate funding based on local needs; an increase in the City's share of new provincial funding, increasing the City's funding level from approximately 22% (allocation level since 2005) to 30% per cent beginning in 2014; simplified reporting requirements, including the consolidation of 24 funding lines to the 3; provincial commitment to review

index base funding requirements; and a commitment to provide three-year support for minor capital funding.

While there are still outstanding issues that have not been addressed by the new funding model, (including the historical funding shortfall, as well as the additional pressures resulting from the implementation of FDK), the Province, the City, and other municipal service operators continue to work together to develop more effective funding mechanisms.

Increase Cost of Subsidized Spaces

The 2014 Recommended Operating Budget for Children's Services includes a recommended increase in the cost of subsidies of \$5.606 million gross, comprised of \$3.072 million due to the change in case mix, as well as a COLA increase of \$2.083 million (0.8%). The following table provides details for the increased costs of \$3.072 million due to the changes in case mix:

Number of Spaces and Per-diem by Age Group											
Analysis of Changes Adjusted to Total Budgeted Spaces											
	May 2013 Actual Mix (Excl 2013 Act.Costs)			2014 Budget				2015 Outlook			
	Spaces	Per diem	Gross	Spaces	Change	Per diem	Gross	Spaces	Change	Per diem	Gross
				<i>Per Projected Capacity at Full FDK - 2014</i>				<i>Per Projected Capacity at Full FDK implementation</i>			
				<i>(Per June 2013 FDK Implementation Status Report)</i>				<i>(Per June 2013 FDK Implementation Status Report)</i>			
Total Purchased Spaces by Age Group *											
Infant	1,727	58.93	26,562.5	1,902	175	58.93	29,254.1	2,077	350	58.93	31,945.8
Toddler	3,090	52.96	42,711.7	3,481	391	52.96	48,116.3	3,872	782	52.96	53,521.0
Kindergarten	5,064	35.07	46,352.2	4,902	(162)	35.07	44,869.3	4,541	(523)	35.07	41,565.0
Pre-school Age	5,861	41.81	63,957.6	5,659	(202)	41.81	61,753.3	5,678	(183)	41.81	61,960.7
School Age	6,104	25.37	40,418.1	5,902	(202)	25.37	39,080.5	5,678	(426)	25.37	37,597.3
Total	21,846	38.58	220,002.1	21,846	-	39.12	223,073.6	21,846	-	39.74	226,589.7
Increase						1.4%	3,071.6			3.0%	6,587.6

* Includes home child care.

This cost increase arises from the delivery of Full Day Kindergarten (FDK), as additional space is provided for infants and toddlers, which is offset by a drop in kindergarten, pre-school and school age children.

As younger children require greater staffing ratio than older children, this shift in case mix will result in an increase of \$3.072 million in 2014, with an additional \$3.515 million in 2015. The increase from the change in case mix, combined with the incremental change in the cost of purchased child care due to COLA of \$2.083 million (approx 0.8%), brings the cost of providing child care subsidies to \$225.156 million, an increase of \$5.155 million from the 2013 Approved Operating Budget for child care fee subsidies of \$220.002 million.

The additional COLA pressure of \$2.083 million and the \$3.072 million required to accommodate the change in staffing ratios will be funded from the Child Care Expansion Reserve Fund, accelerating the depletion of the Program reserves, unless additional funding is provided to offset the increase in the cost of child care delivery.

Updating 2014 Provincial Funding

On April 20, 2012, in a budget backgrounder titled "Making the Ontario Budget Even Better," the Province announced new assistance for child care operators. The announcement advised

that across the Province, additional funding of \$90.0 million will be available in 2012-13; \$68.0 million in 2013-14; and, \$84.0 million in 2014-15.

In 2013, the Province allocated additional base funding to the City of \$8.392 million (3.1% increase in base funding), with \$7.821 million for operating and \$0.571 million to assist operators with capital retrofits.

The 2014 Recommended Operating Budget for Children's Services includes additional Provincial revenue of \$0.492 million net, based on a 1% projected increase in Provincial subsidy. As the City is by far the Province's largest Service Manager, additional base funding to support the cost of providing child care and the cost of transitioning to FDK is anticipated.

Once the details of the 2013-14 Provincial allocations are available, it is recommended that Children's Services report to the Budget Committee through the Community and Development Committee, and amend the 2014 Approved Operating Budget accordingly.

Should Children's Services receive additional Provincial base funding, it is further recommended that these funds be used to reduce the budgeted 2014 contribution from the Child Care Expansion Reserve Fund required to maintain existing 24,264 child care fee subsidies.

Depletion of the Child Care Expansion Reserve Fund

Children's Services has been able to maintain existing service levels by withdrawing annually from the Child Care Expansion Reserve Fund. The balance in the reserve fund at the end of 2013 is projected to be \$38.746 million. The budgeted 2014 withdrawal is \$13.863 million, leaving \$24.998 million in the reserve to fund service in 2015 and beyond. Without additional funding, the Child Care Expansion Reserve fund will be depleted in at the beginning of 2016.

Should the Province fail to provide additional resources to maintain the existing Council-approved service level of 24,264 child care fee subsidies, there will be a need to gradually reduce subsidized spaces by 2,800 beginning in September 2015 (equivalent to \$28.000 million). Further reductions of approximately 700 subsidized spaces per annum (equivalent to \$7.000 million) will be required until the annual provincial funding contributions are indexed to inflation.

Provincial and City staff continue to negotiate financial strategies in an effort to extend the life of the Child Care Expansion Reserve Fund or address the historical funding pressure in its entirety. It is recommended that Children's Services provide an update on the results of these negotiations to the Community and Recreation Committee on a regular basis.

Service Efficiency Study Implementation – Status Update

Service Efficiency Implementation

The 2012 City Manager's Service Efficiency Study for the Children's Services Division (CD13.3, May 23, 2012 "Terms of Reference - Service Review of Children's Services and Long Term Care Homes and Services") recommended:

- that Children's Services review "...the current child care operator budget process to maximize opportunities to streamline and automate the process as part of the Division's information system upgrade; and
- that the Program initiates changes necessary to provide "optimal service efficiency savings ...in the shortest period of time...".

In response to these recommendations, a new IT project, Service Efficiency Study CSIS Implementation project with a cost of \$3.175 million has been included in the 2014 Recommended 10-Year Capital Plan. The objectives of the new system include:

- Enhance existing CSIS applications to support online budget submissions for operators, which will reduce the administrative funding required by child care operators.
- Modify the CSIS applications to enable Toronto families receiving child care fee subsidy to perform their annual fee subsidy assessments online, resulting in efficiencies in processing time and staffing costs. These efficiencies will further reduce administrative costs.

This project provides \$0.625 million in 2014 to support a feasibility study to validate savings projections; an additional \$2.550 million is included in 2015-2017 to complete the project deliverables, subject to a positive outcome from the cost-benefit analysis undertaken as part of the feasibility study.

The savings from these administrative enhancements would be reinvested and used to support the provision of subsidies.

Issues Referred to the 2014 Operating Budget Process

Standing Committee Service Level Review Impacts

At its meeting of October 1, 2013, Council amended CD23.10 "2014 Service level Review – Community Development and Recreation Programs" and recommended that the necessary resources be included in the 2014 Recommended Budget without Divisional service level cuts, subject to the 2014 budget review process.

Recommendation 3 directed that

" the equity service standards for infant, toddler, pre-school groups be increased by 2 percent (528 spaces)".

This service level recommendation will require additional funding of \$7.854 million from the City's tax base.

Additional capital investment would be required in some areas of the City to create physical child care space, with the cost of construction to vary depending on the nature of the construction requirements

The impact of this recommendation is noted in the following table:

**Standing Committee Service Level Review Impacts
(In \$000s)**

Description (\$000s)	2014			Net Incremental Impact			
	Gross Expenditure	Net Expenditure	New Positions	2015 Plan		2016 Plan	
				Net Expenditure	# Positions	Net Expenditure	# Positions
Service Level Changes							
Recommended							
Sub total							
Not Recommended							
Children's Services service standards for infant, toddler, pre-school groups be increased by 528 spaces	7,854.0	7,854.0					
Sub total	7,854.0	7,854.0					
Total	7,854.0	7,854.0					

An increase of 2% or 268 spaces would have a financial impact of \$3.927 million.

The above recommendation was considered during the 2014 administrative budget process.

As well as the financial implications resulting from the service enhancement, other requirements including program capacity, space and capital investments required to support the increased child care spaces would need to be addressed prior to any implementation. In addition, the ongoing Provincial funding shortfall and the related sustainability issues in the Toronto child care delivery system beyond 2016 require careful assessment to avoid adverse impact on the most vulnerable people of our society.

In consideration of these issues, this request is not recommended.

Appendix 1

2013 Service Performance

2013 Key Accomplishments

In 2013, Children Services achieved the following results:

- ✓ Provided extensive community and intergovernmental engagement of Systems Planning, Special Needs, Funding Model and Service Planning.
- ✓ Opened 93 new Full Day Kindergarten (FDK) programs.
- ✓ Developed Middle Childhood Implementation Plan.
- ✓ Increased spaces in Early Learning and Care spaces by 3.8%.

2013 Financial Performance

2013 Budget Variance Analysis (In \$000s)

(\$000s)	2011 Actuals	2012 Actuals	2013 Approved Budget	2013 Projected Actuals*	2013 Approved Budget vs. Projected Actual Variance	
	\$	\$	\$	\$	\$	%
Gross Expenditures	371,535.4	383,804.3	402,335.5	402,335.5	-	-
Revenues	297,257.7	307,553.8	325,619.0	325,619.0	-	-
Net Expenditures	74,277.7	76,250.5	76,716.5	76,716.5	-	-
Approved Positions	955.5	936.8	931.4	931.4	-	-

* Based on the 3rd Quarter Operating Budget Variance Report

2013 Experience

- Children's Services reported a \$0 net favourable variance for the nine-months ended September 30, 2013. Children's Services gross expenditures are \$0.776 million or 0.2% lower than planned, offset by reduced revenue of \$0.776 million, or 0.3% of the 2013 Approved Operating Budget.
- The under spending is primarily attributable to savings in both municipal and purchased child care, reflecting difference in the child mix from the planned mix, with the reduced revenues resulting from lower than planned reserve funding.
- Children's Services forecasts a year-end \$0 net variance, with gross and revenues as planned.

Impact of 2013 Operating Variance on the 2014 Recommended Budget

- As Children's Services forecasts a year-end \$0 net variance with gross and revenues as planned, the 2013 Operating Variance will have no impact on the 2014 Recommended Budget.

Appendix 2

2014 Recommended Total Operating Budget by Expenditure Category

Program Summary by Expenditure Category (In \$000s)

Category of Expense	2011	2012	2013	2013	2014	2014 Change from		2015	2016
	Actual	Actual	Budget	Projected	Rec'd	2013 Approved		Plan	Plan
	\$	\$	\$	\$	\$	\$	%	\$	\$
Salaries and Benefits	72,703.5	72,479.7	76,850.6	76,850.6	79,735.5	2,885.0	3.8%	82,307.8	82,966.1
Materials and Supplies	3,172.7	2,891.0	3,160.9	3,160.9	2,591.7	(569.2)	-18.0%	3,310.7	3,386.4
Equipment	440.3	1,360.9	699.0	699.0	630.3	(68.7)	-9.8%	681.3	694.9
Services & Rents	291,266.8	303,474.0	316,049.4	316,049.4	315,048.2	(1,001.3)	-0.3%	321,136.6	327,729.4
Contributions to Capital									
Contributions to Reserve/Res Funds	1,184.8	1,190.7	1,178.9	1,178.9	1,178.9		0.0%	1,178.9	1,178.9
Other Expenditures	68.8	(274.4)	1,031.2	1,031.2	694.5	(336.7)	-32.7%	694.5	694.5
Interdivisional Charges	2,700.6	2,682.5	3,365.4	3,365.4	3,583.5	218.0	6.5%	3,583.7	3,583.7
Total Gross Expenditures	371,537.4	383,804.3	402,335.5	402,335.5	403,462.7	1,127.2	0.3%	412,893.6	420,234.1
Interdivisional Recoveries	7,777.2	7,889.5	10,200.0	10,200.0	10,200.0		0.0%	10,200.0	10,200.0
Provincial Subsidies	264,865.9	274,771.1	279,722.6	279,722.6	280,214.8	492.2	0.2%	280,214.8	280,214.8
Federal Subsidies									
Other Subsidies									
User Fees & Donations	21,233.7	22,419.6	17,954.5	17,954.5	19,037.5	1,083.0	6.0%	19,121.5	19,121.5
Transfers from Capital Fund		-	1,014.0	1,014.0	1,561.5	547.5	54.0%	1,824.5	1,771.5
Contribution from Reserve Funds	3,311.5	2,421.1	16,727.9	16,727.9	15,732.5	(995.5)	-6.0%	15,722.8	3,949.6
Contribution from Reserve									
Sundry Revenues	69.3	232.4							
Required Adjustments									
Total Revenues	297,257.7	307,733.8	325,619.0	325,619.0	326,746.3	1,127.2	0.3%	327,083.6	315,257.4
Total Net Expenditures	74,279.7	76,070.5	76,716.5	76,716.5	76,716.4	(0.1)	0.0%	85,810.0	104,976.7
Approved Positions	955.5	936.8	931.4	931.4	949.7	18.3	2.0%		

2014 Key Cost Drivers

The 2014 Recommended Operating Budget of \$403.463 million gross reflects an increase in gross expenditures of \$1.127 million from the 2013 Approved Operating Budget of \$402.336 million. Services and Rents are the largest expenditure category and account for 78.1% of total recommended expenditures; followed by salaries and benefits at 19.8% and other expenditures at 2.1%.

Salaries and Benefits

- Salaries and Benefits of \$79.735 million reflect an increase of \$2.885 million (3.8%) from the 2013 Approved Operating Budget. This change results from the increase of \$1.041 million for COLA, and \$1.455 million for progression and step increases. Other changes include the net pressure of \$1.064 million for Child care staff ratio increase as a result of the implementation of FDK, offset by savings resulting from moving in-house food services to catered services, and savings from other complement position reclassifications.

Materials and Supplies

- The 2014 Recommended Operating Budget for Materials and Supplies of \$2.592 million is \$0.569 million (18.0%) lower than the 2013 Approved Operating Budget, with budget reductions from realignments to reflect actual experience.

Service and Rents

- Service and Rents of \$315.048 million is \$1.001 million (0.3%) lower than the 2013 Approved Operating Budget. This reduction is comprised of savings from line-by-line review of \$0.917 million, the reversal of the capital grants for the Thorncliffe and Terry Tam child care centres of \$4.245 million, offset by the non-labour inflationary increase of \$4.161 million, primarily comprised of COLA for purchased child care services and other per diem adjustments due to change in case mix.

Other Expenditures

- Other Expenditures of \$0.694 million are \$0.337 million (32.7%) lower than the 2013 Approved Operating Budget, with reductions to the cost of home care providers that reflect changes in case mix.

Interdivisional Charges

- Interdivisional Charges of \$3.584 million have increased \$0.218 million (6.5%) to reflect the increase in rent from Facilities Management due to the relocation of the East District office to a shared facility with Toronto Employment and Social Services.

Provincial Subsidies

- Provincial subsidies of \$280.215 million is \$0.492 million (0.2%) more than the 2013 Approved Operating Budget, and reflects the increase to the 2013 budgeted subsidy estimates of 1%, offset by a reduction following confirmation of capital grant funding.

User Fees

- User fee revenues of \$19.037 million are \$1.083 million (6.0%) higher than 2013 Approved Operating Budget, and reflects the increase in fees of \$0.083 million for full-fee families for the second year, required to be in compliance with Provincial guidelines of approved by City Council on July 11-13, 2012 and an increase of \$1.000 million to reflect full cost recovery for services.

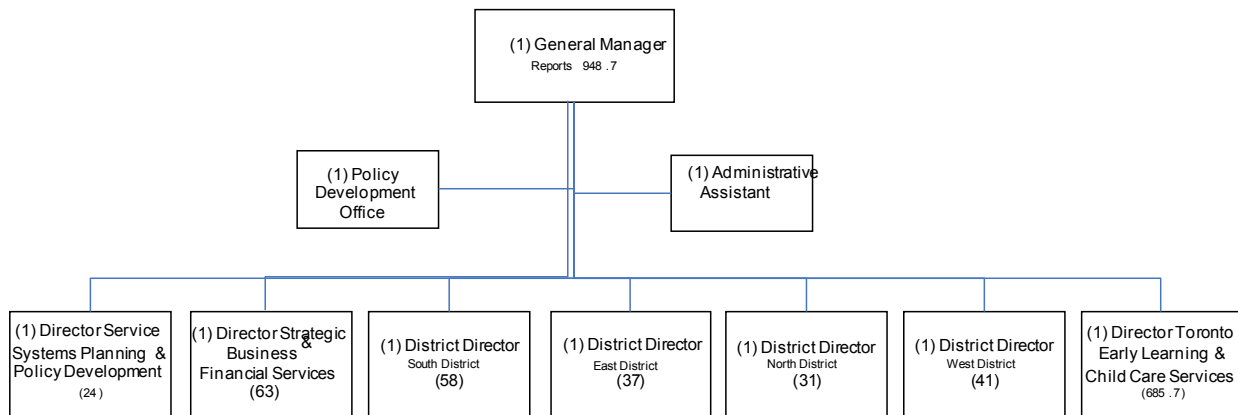
Transfers from Capital Fund

- The transfers from the capital budget of \$1.562 million have increased by \$0.548 million (54.0%) from the 2013 Approved Operating Budget, and reflect the recovery for the four positions required for the development of the Service Efficiency Study CSIS Implementation project.

Contribution from Reserve Funds

- The contribution from reserve funds of \$15.733 million is \$0.996 million (6%) lower than 2013, and is comprised of an increase from reserves of \$3.901 million to fund the Provincial shortfall, offset by reductions of \$4.245 million in capital grants, and from the one-time funding of \$0.652 million for the 2013 lump-sum adjustment from the Tax Stabilization Reserve fund.

2014 Organization Chart



2014 Full and Part Time Staff

Category	Senior Management	Management	Exempt Professional & Clerical	Union	Total
Full-Time	1.0	147.0	2.0	612.5	762.5
Part-Time				187.2	187.2
Total	1.0	147.0	2.0	799.7	949.7

Appendix 5

Inflows/Outflows to/from Reserves & Reserve Funds

Program Specific Reserve / Reserve Funds (In \$000s)

Reserve / Reserve Fund Name (In \$000s)	Reserve / Reserve Fund Number	Projected Balance as of Dec. 31, 2013 \$	Proposed Withdrawals (-) / Contributions (+)		
			2014 \$	2015 \$	2016 \$
Projected Beginning Balance	XR1103	5,617.0	5,617.0	5,486.9	5,337.2
Child Care Capital Reserve Fund					
<i>Proposed</i>					
<i>Withdrawals (-)</i>			(1,525.0)	(1,525.0)	(1,400.0)
<i>Contributions (+)</i>			1,394.9	1,375.3	1,375.1
Total Reserve / Reserve Fund Draws / Contributions		5,617.0	5,486.9	5,337.2	5,312.3
Balance at Year-End		5,617.0	5,486.9	5,337.2	5,312.3

Reserve / Reserve Fund Name (In \$000s)	Reserve / Reserve Fund Number	Projected Balance as of	Proposed Withdrawals (-) / Contributions (+)		
			2014 \$	2015 \$	2016 \$
Projected Beginning Balance	XR1101	38,746.0	38,746.0	24,998.0	2,090.6
Child Care Expansion Reserve Fund					
<i>Proposed</i>					
<i>Withdrawals (-)</i>			(13,862.8)	(22,956.5)	(30,087.2)
<i>Contributions (+)</i>			114.8	49.1	
Total Reserve / Reserve Fund Draws / Contributions		38,746.0	24,998.0	2,090.6	(27,996.6)
Balance at Year-End		38,746.0	24,998.0	2,090.6	(27,996.6)

Appendix 6

2014 User Fee Rate Changes Inflation Adjustment

Rate Description	Service	Fee Category	Fee Basis	2013	2014			2015	2016		
				Approved Rate	Inflationary Adjusted Rate	Other Adjustment	Budget Rate	Budget Volume	Incremental Revenue	Plan Rate	Plan Rate
Infants-Birth to 18 mths	Child Care Delivery	Full Cost Recovery	Per day/per child	\$95.56	\$95.56	\$4.57	\$100.13	4,518	\$20,641.00	\$104.70	\$104.70
Toddlers - 18 to 30 mths	Child Care Delivery	Full Cost Recovery	Per day/per child	\$85.06	\$85.06	\$4.07	\$89.13	8,283	\$33,706.00	\$93.20	\$93.20
Preschool 31 to 47 mths	Child Care Delivery	Full Cost Recovery	Per day/per child	\$67.23	\$67.23	\$1.73	\$68.96	11,295	\$19,534.00	\$70.70	\$70.70
Part time Kindergarten (4-5 yrs)	Child Care Delivery	Full Cost Recovery	Per day/per child	\$67.23	\$67.23	\$1.73	\$68.96	5,271	\$9,119.00	\$70.70	\$70.70
Full Day Kindergarten - Escorted - Year round (12 months)	Child Care Delivery	Full Cost Recovery	Per day/per child	\$45.00	\$45.00	\$0.00	\$45.00	753	\$0.00	\$45.00	\$45.00
Full Day Kindergarten - Escorted - September to June (10 months)	Child Care Delivery	Full Cost Recovery	Per day/per child	\$35.00	\$35.00	\$0.00	\$35.00	0	\$0.00	\$35.00	\$35.00
Full Day Kindergarten - Escorted - July to August (2 months)	Child Care Delivery	Full Cost Recovery	Per day/per child	\$50.00	\$50.00	\$0.00	\$50.00	251	\$0.00	\$50.00	\$50.00
Full Day Kindergarten - Escorted - Before school only	Child Care Delivery	Full Cost Recovery	Per day/per child	\$18.00	\$18.00	\$0.00	\$18.00	251	\$0.00	\$18.00	\$18.00
Full Day Kindergarten - Escorted - After school only	Child Care Delivery	Full Cost Recovery	Per day/per child	\$27.00	\$27.00	\$0.00	\$27.00	753	\$0.00	\$27.00	\$27.00
Full day kindergarten/City Operated third party-Year round (12 months)	Child Care Delivery	Full Cost Recovery	Per day/per child	\$41.00	\$41.00	\$0.00	\$41.00	502	\$0.00	\$41.00	\$41.00
Full day kindergarten/City Operated third party - September to June (10 months)	Child Care Delivery	Full Cost Recovery	Per day/per child	\$32.00	\$32.00	\$0.00	\$32.00	0	\$0.00	\$32.00	\$32.00
Full day kindergarten/City Operated third party - July to August (2 months)	Child Care Delivery	Full Cost Recovery	Per day/per child	\$50.00	\$50.00	\$0.00	\$50.00	0	\$0.00	\$50.00	\$50.00
Full day kindergarten/City Operated third party - Before school only	Child Care Delivery	Full Cost Recovery	Per day/per child	\$14.00	\$14.00	\$0.00	\$14.00	251	\$0.00	\$14.00	\$14.00
Full day kindergarten/City Operated third party - After school only	Child Care Delivery	Full Cost Recovery	Per day/per child	\$21.00	\$21.00	\$0.00	\$21.00	753	\$0.00	\$21.00	\$21.00
School Age - 6 to 10 years - Year round (12 months)	Child Care Delivery	Full Cost Recovery	Per day/per child	\$41.00	\$41.00	\$0.00	\$41.00	3,012	\$0.00	\$41.00	\$41.00
School Age (6 to 10 years) - September to June (10 months)	Child Care Delivery	Full Cost Recovery	Per day/per child	\$32.00	\$32.00	\$0.00	\$32.00	0	\$0.00	\$32.00	\$32.00
School Age (6 to 10 years) - July to August (2 months)	Child Care Delivery	Full Cost Recovery	Per day/per child	\$50.00	\$50.00	\$0.00	\$50.00	251	\$0.00	\$50.00	\$50.00
School Age - 6 to 10 years - Before school only	Child Care Delivery	Full Cost Recovery	Per day/per child	\$14.00	\$14.00	\$0.00	\$14.00	251	\$0.00	\$14.00	\$14.00
School Age - 6 to 10 years - After school only	Child Care Delivery	Full Cost Recovery	Per day/per child	\$21.00	\$21.00	\$0.00	\$21.00	753	\$0.00	\$21.00	\$21.00