



STAFF REPORT ACTION REQUIRED

Children's Services Amendment to 2014 Recommended Operating Budget to Reflect Increase in Provincial Contributions

Date:	December 18, 2013
To:	Budget Committee
From:	General Manager, Children's Services
Wards:	All
Reference Number:	

SUMMARY

This report seeks approval to amend the proposed Children's Services 2014 Operating Budget to reflect additional Provincial Funding. On November 19, 2013, the City received notification of its 2014 funding allocation. Funding from the Ministry of Education will increase from \$275.182 million to \$296.018 million, an increase of \$20.836 million, or 7.6%.

The 2014 Recommended Operating Budget for Children's Services, developed prior to the provincial announcement, is \$403.463 million gross. It includes a projected 1% increase in provincial funding of \$2.752 million and a withdrawal \$13.863 million from the Child Care Expansion Reserve Fund to maintain 2013 service levels. The incremental impact on the 2014 Recommended Operating Budget for Children's Services is \$17.184 million gross, \$0 net.

The investment strategy recommended in this report support several goals of the Council approved Child Care Service Plan, including those related to age and geographic equity as it relates to the availability of child care spaces and fee subsidy. The strategy allows the City to amend service standards in a manner that optimizes access to Provincial funding through the Utilization Allocation and enhances access to care by families of younger more vulnerable children.

RECOMMENDATIONS

The General Manager, Children's Services recommends that:

- 1) City Council amend the proposed Children's Services 2014 Operating Budget to reflect the following:
 - a) an additional \$18.084 million in provincial funding;
 - b) a reduction of \$0.900 million on the projected 2014 draw from the Child Care Expansion Reserve Fund, and
 - c) an expenditure increase of \$17.184 million gross, \$0 net.

- 2) City Council approves the following service standard adjustments for inclusion in the 2014 Recommended Operating Budget for Children's Services:
 - a) the equity service standard for infant, toddler, pre-school age groups be increased by 668 spaces (5%) for \$9.800 million;
 - b) funding for Special Needs Resourcing be increased by \$0.854 million as prescribed by Provincial guidelines;
 - c) the provision of grants not to exceed \$3.0 million in lieu of wage subsidy to support infant and toddler programs resulting from the reconfigurations as a part of the Full Day Kindergarten (FDK) transition, with these grants available until a new funding model for child care is implemented in 2016;
 - d) increase the funding to support payment of actual costs to operators to deliver child care by \$2.388 million;
 - e) designate \$0.100 million as stabilization funding to support Aboriginal Child Care, while the City develops, in consultation with the Aboriginal Community, a funding model that supports the unique needs of this community; and
 - f) increase program administration by \$1.042 million and the staff complement by the equivalent of six full-time positions to support the delivery of increased service standards.

FINANCIAL IMPACT

The 2014 Recommended Operating Budget for Children's Services, developed prior to the provincial announcement, is \$403.463 million gross, \$76.716 million net, includes a projected 1% increase in core provincial funding of \$2.752 million, and includes a withdrawal of \$13.863 million from the Child Care Expansion Reserve Fund to maintain 2013 service levels.

On November 19, 2013, the City received notification from the Province of its 2014 funding allocation. Funding from the Ministry of Education will increase from \$275.182 million to \$296.018 million, an increase of \$20.836 million or 7.6%.

There is no net impact from the additional funding on the 2014 Recommended Operating Budget. Gross expenditures increase by \$17.184 million, \$0 net, and include a budgeted reduction of \$0.900 million in the withdrawal from the Child Care Capital Expansion Reserve Fund. Table 1 summarizes the operating budget impacts.

Table 1

	(in \$000s)			
	Gross	Revenue	Reserve Draw	Net
2014 Recommended Operating Budget *	403,462.7	312,883.5	13,862.8	76,716.4
2014 Funding Announcement	17,184.0	18,084.0	(900.0)	0.0
Ammended 2014 Recommended Operating Budget	<u>420,646.7</u>	<u>330,967.5</u>	<u>12,962.8</u>	<u>76,716.4</u>

*includes projected 1% Provincial funding increase of \$2.752 million

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

DECISION HISTORY

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 Operating Budget to increase the equity service standards for infant, toddler, and pre-school age groups by 2 percent or 528 spaces. (Note: 528 spaces equates to a 4% increase.)

Community Development and Recreation Committee, at its December 4, 2014 meeting, approved a report from the General Manager, Children's Services, recommending that savings resulting from implementation of Full Day Kindergarten (FDK) continue to be reinvested into areas of greatest need and into the creation of spaces for younger children in accordance with principles of the Child Care Service Plan, including those of age and geographical equity. In addition, Community Development and Recreation Committee requested that the General Manager, Children's Services, consider maintaining existing wage subsidy for re-configured childcare programs serving younger children and that this issue be addressed in the division's report to the Budget Committee on December 20, 2013.

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>

City Council at its meeting May 11 and 12, 2010 unanimously approved the Toronto Child Care Service Plan. The plan's principles of age and geographic equity support the distribution of fees subsidies by age and ward in the City.

http://www.toronto.ca/children/service_plan.htm

http://www.toronto.ca/children/report/councilreport_12may2010.htm

ISSUE BACKGROUND

On December 11, 2012, the Province presented a new funding framework and funding formula to support child care in Ontario. This framework forms a key component of the *Modernizing Child Care* initiative and streamlines the way in which the Province flows funds for child care to municipalities. The revised funding framework provides greater flexibility for municipalities to allocate resources based on local need. A proposed new child care funding model for Toronto will be presented to Council in the first quarter of 2015.

Under the new formula, Toronto is expected to receive approximately 30% of any additional provincial funding for child care. This is an increase from the average of 22% which the City has received since 2005. With this new allocation, the City is receiving approximately 30% of the total provincial investment in child care. Table 2 summarizes the City's funding allocation from the Province.

Table 2
Changes in Provincial Funding from 2013 to 2014
(000's)

	2013	2014	Change	% (Inc./Dec)
Core Service				
Core Service Delivery	222,875	241,456	18,581	8.34
Special Purpose				
Rural/Remote	-	1	1	n/a
Language	16,882	17,580	698	4.14
FDK Transition	8,090	8,938	848	10.49
Transformation	1,469	1,112	(357)	(24.27)
Cost of Living	8,036	8,720	684	8.51
Aboriginal	121	168	47	39.16
Capacity Building	958	1,050	92	9.57
<i>Utilization Grant</i>	<i>14,600</i>	<i>15,660</i>	<i>1,060</i>	<i>7.26</i>
Repairs & Maintenance	430	450	20	4.76
Capping		(521)	(521)	n/a
	50,586	53,159	2,573	5.09
Minor Capital				
Minor Capital	1,721	1,403	(318)	(18.46)
	275,182	296,018	20,836	7.57

The new Provincial formula includes a Utilization Allocation that recognizes those Municipalities that contribute above their minimum required cost share. In 2013 and 2014, the City received \$14.6 million and \$15.6 million respectively, of provincial funding through this allocation. There has been no requirement for additional City cost share since 2012.

In 2013, the City's Utilization Allocation was based on the City's 2011 investment above its minimum required contribution. This investment covered the cost of approximately 2,000 fees subsidies and is required to maintain Council mandated service levels. It is funded through a combination of City property tax revenues and reserve funding. This means that for every dollar the City invests in child care above its minimum required contribution, it received 70 cents of additional funding from Ontario. If the City's contribution decreases, the Provincial Utilization Allocation will also decrease.

COMMENTS

In recent engagement sessions with families, the City asked how parents would like to see additional resources for the child care system invested, should they become available. A slight majority of respondents indicated that the City should increase the number of child care fee subsidies available to families. Others identified the need for base funding to reduce the cost of child care. Recommendations in this report focus on improving access to child care for those families most in need. A portion of funds, however, has been earmarked to improve affordability of new infant and toddler spaces for families.

Fee Subsidy Allocation

Toronto's child care fees subsidies are allocated based on principles of age and geographic equity, which is measured at the ward level. Due to the limited number of fee subsidies available, Council approved the equitable distribution of available resources by assigning each ward a share of the 24,264 full time fee subsidies based on the proportion of children in the ward who are living below the low-income cut-off (LICO). If a ward has 5% of these children, that ward is assigned 5% of the subsidies available. The spaces are then allocated by age, with a set percentage being assigned to each age group.

The City faces significant challenges in its goal to improve geographic equity and increase the capacity of the child care system in certain areas of the city. Communities with inadequate licensed child care services have insufficient access to both licensed care and fee subsidy. A goal of Toronto's Child Care Service Plan is to improve geographic equity at the individual ward level so that each ward is within 10% of its equity target by 2015.

Age equity targets are established to ensure equitable access to all children. The City has set target levels to improve access to care by the youngest children, 0-4 years old, paying particular attention to infants and toddlers. Table 3 summarizes the spaces allocated, enrolled and required for infant, toddler and preschool age groups to achieve age equity.

It illustrates the need for infant & toddler care and reflects a lack of both fee subsidy and available child care spaces.

Table 3

5% Increase of Equity for Infant, Toddler and Preschool Spaces									
Age	Infant			Toddler			Preschool		
Targets # of Subsidies	Equity	Enrolled	Under Equity	Equity	Enrolled	Under Equity	Equity	Enrolled	Under Equity
Current Equity	2730	2089	641	4550	3606	944	6060	5711	355

With more than 17,500 families waiting for child care subsidies and only 20% of Toronto's children having access to licensed child care, demand is evident. Currently, infant, toddler and preschool spaces are under their equity target and considered underserved. Equity can be improved with an increase in the number of fee subsidies available to these age groups as recommended in this report. The cost to improve equity by 5%, based on average cost of each age group is as follows:

Table 4

Cost to Increase Equity by 5% for Infant, Toddler and Preschool			
Age Group	# of additional spaces to improve equity by 5 % increase	Average Cost per space	Cost to increase %5
Infant	137	\$18,943	\$2.595 million
Toddler	228	\$15,589	\$3.554 million
Preschool	303	\$12,048	\$3.651 million
Total Cost			\$9.800 million

Providing additional fee subsidies is critical to achieving the principles of age and geographic equity contained in the Child Care Service Plan.

Capital Requirements

Another important factor in achieving equity is the availability of actual child care spaces. This is especially challenging when addressing the demands of those requiring services for infant age groups. Currently, there are 4,700 infants waiting for subsidy, with only 2,291 physical spaces available to them. By investing resources to support the building of new infant spaces and decreasing the cost of infant care, the City can improve access and equity for this age group. Capital resources to construct infant spaces are made available through transitional dollars already included in the 2014 operating budget of the Children's Services Division. The Toronto Child Care Service Plan (2009-2014) articulates the capital strategy that guides investment in child care in Toronto.

New Child Care Funding Model and Wage Subsidy

Operators adding new spaces for infants in response to transitions related to the implementation of FDK are exposed to financial risk given the high costs of providing infant care. Assistance in reducing this risk could encourage operators to create infant spaces in their facilities as rooms become available.

Children's Services continues to work closely with stakeholders, including parents and child care operators, to develop a "Made in Toronto" funding model. An aspect of the current funding system that is being reviewed is wage subsidy funding. This form of base funding assists operators with salary costs and in turn reduces fees for all families. The new provincial funding framework does not include wage subsidy, but does provide municipalities with the flexibility to both base fund operators and provide fee subsidies to parents. The Province has not provided additional funding for wage subsidy since 1997, when the program was transferred to the City.

Wage Subsidy funding is extremely expensive to administer and its current allocation is inequitably distributed across the City. This means that some families benefit from lower fees if the centre their child attends receives wage subsidy. Many other families must pay the full cost of care as their child care operators do not receive a wage subsidy grant.

As the system transitions to include FDK, wage subsidy payments to operators are being reduced proportionally as group sizes of four- and five-year olds leave a centre. In 2012 and 2013, operators saw a reduction of \$0.770 million in wage subsidy funding. This money was reinvested into child care fees subsidies to support the increase costs of infant and toddler spaces. Nevertheless, when operators reconfigure space, they experience fiscal pressures as a result of the higher cost of infant and toddler care. As a result, for 2014 and 2015, Children's Services recommends introducing a grant in lieu of wage subsidy to support operators that have created or will create new infant and toddler spaces as a part of the FDK transition. This grant would be determined using the same formula set out for the former wage subsidy program. Infant and toddler programs created as part of the FDK transition must meet the City's principles of age and geographic equity as approved in the Child Care Service Plan. This grant would be available until a new funding model for child care is implemented in 2016. Its purpose is to reduce the cost of infant and toddler child care, which will result in a reduction of fees to parents and a reduction in financial risk to operators introducing care for younger children. It is anticipated that the grant will encourage operators to create additional infant and toddler spaces, thus improving access and equity for these age groups.

At its December 4, 2013 meeting, Community Development and Recreation Committee requested the General Manager, Children's Services, consider maintaining existing wage subsidy for re-configured childcare programs serving younger children. Given the complexity of changing the wage subsidy reduction policy in the final year of its implementation, Children's Services proposes to address this recommendation by allocating up to \$3.0 million of provincial resources to provide a grant in lieu of wage

subsidy to support infant and toddler programs that are created as a part of the FDK transition.

Fund Operators Actual Costs

Council has mandated that child care operators be compensated for their actual cost of providing care to those families in receipt of fee subsidy. On occasion, the City's ability to pay actual costs is restricted by the funds available. In 2013, an additional \$2.388 million was required if all operators were to receive actual costs. As a result, the per diem paid to a small number of child care providers was capped, with programs receiving a maximum of 4% increase over their 2012 budget. This report recommends an increase of \$2.388 million in funding for operators in 2014, in the hopes that no program will have to be capped. When capped, operators risk eroding limited reserve funds or entering deficit positions.

Aboriginal Community

The Aboriginal communities in Toronto are recognized as unique. While children in these communities make up a small percentage of the total child population, they are dispersed across the city, making access to culturally appropriate child care services difficult. Children's Services supports the early learning and care needs of Aboriginal families through the provision of fee subsidies to families looking for culturally-specific child care programs. In addition, Children's Services has been working with the Aboriginal community to address specific funding needs and to develop a unique child care funding model for this community.

In the past five years, two of four Aboriginal child care centres have closed due challenges that the Aboriginal Community face in accessing services close to home. In large part this is due to the population being dispersed across the city. Children's Services is working closely with these communities to support the development of a child care model that meets their unique needs. In the interim, the division recommends that \$0.100 million of provincial resources be allocated to stabilize Aboriginal child care while a new child care funding model is being developed.

Special Needs and Administration

The Province, through its funding formula, prescribes funding allocations to a number of areas, including Special Needs and Administration. The new formula recognizes that as the system expands, so too will the number of children who require special needs supports. The expenditure benchmark for Special Needs is 4.1% of provincial funding. Therefore, \$0.854 million of the funding increase must be allocated to services that support children with extra support needs.

The Province introduced a new approach for Administration Expense for 2014. A maximum ceiling of 10% of the total provincial funding can be allocated to support administration costs. The 2014 Recommended Operating Budget for Children's Services includes administration costs of 6% of its total operating budget, which continues to be well below the provincial guideline. To support the implementation of the service standard increases recommended in this report, Children's Services will allocate 5% (\$1.042 million) of the new funding to administration. An additional six full time equivalent positions will be added to the Children's Services complement.

The additional staff will be required for case management of fee subsidies, payment support, budget support for administration of grants and service delivery for special need support programs.

Investment Strategy and Service Standard Adjustments Summary

Table 5 summarizes the investment strategy recommended in this report. It includes a reduction on the draw from the Child Care Expansion Reserve Fund of \$0.900 million, reducing the recommended 2014 draw to \$12.963 million.

Table 5

Additional Provincial funding less allocated funding (millions)	
Provincial Funding (,000's)	\$20.836
Special Needs - legislated	\$0.854
1% Projected increase (already in 2014 Recommended Budget)	\$2.752
Funds Available for Investment	17.230
1 Increase infant, toddler and preschool subsidies by 668 spaces	\$9.800
2 Grant for infants and toddlers in lieu of wage subsidy	\$3.000
3 Pay actual per diem costs to operators with fees subsidy contracts	\$2.388
4 Support Aboriginal funding model	\$ 0.100
5 Program delivery (5%)	\$1.042
6 Reduce draw from the Child Care Expansion Reserve Fund	\$ 0.900
Total	\$20.836

Going forward, the Province must continue to increase funding minimally by the cost of living. Failure to do so will result in a \$6.0 million incremental annual pressure. Similarly, if the City's investment in child care declines, the provincial Utilization Grant will also be reduced. To mitigate the risk associated with this, Children's Services, with Financial Planning, is developing a long-term strategy that will incrementally replace reserve fund contributions with adjustments in the Division's base budget. This strategy will be reported to Council as part of the 2015 budget process.

CONCLUSION

The investment strategy recommended in this report support several goals of the Child Care Service Plan, including those related to age and geographic equity as it relates to the availability of child care spaces and fee subsidy. The strategy allows the City to amend service standards in a manner that optimizes access to Provincial funding through the Utilization Allocation and enhances access to care by families of younger more vulnerable children. These changes have no impact on the division's recommended net operating budget.

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SIGNATURE

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