



**STAFF REPORT
ACTION REQUIRED**

Children's Services Amendment to 2015 Operating Budget to reflect Increase in Provincial Contributions

Date:	January 26, 2015
To:	Budget Committee
From:	General Manager, Children's Services
Wards:	All
Reference Number:	

SUMMARY

This report seeks approval to amend the 2015 Recommended Operating Budget for Children's Services to reflect \$28.411 million in additional provincial Funding. This additional funding is comprised of an additional \$5.831 million for the annual provincial base funding increase, and additional funding of \$22.580 million to deliver the new provincial Wage Enhancement program.

On January 13, 2015, the City received notification of its 2015 base funding allocation from the Ministry of Education, which will increase the base subsidy from \$296.018 million to \$304.809 million, an increase of \$8.791 million, or 3%.

On January 20, 2015, the Province formally announced a new Provincial Wage Enhancement program to support the licensed child care sector. This program is a component of the Province's Poverty Reduction Strategy. As service system manager, the City will promote, implement and administer this program. Children's Services has also been allocated \$2.052 million gross, \$0 net, to administer the Wage Enhancement program, fully funded from provincial funding. This amount reflects 10 % of the City's 2015 allocation for Wage Enhancement, which is estimated to be up to \$20.528 million.

The 2015 Recommended Operating Budget for Children's Services, developed prior to the provincial announcements, is \$424.494 million gross, and includes a projected 1% increase in provincial funding of \$2.960 million and a \$13.220 million withdrawal from the Child Care Expansion Reserve Fund to maintain 2014 service levels.

This report recommends amendments to the 2015 Recommended Operating Budget for Children's Services that support the Council-approved Child Care Service Plan and maximizes provincial funding available to support children and families in Toronto. Recommended amendments will increase the Gross Budget to \$452.405 million gross; reduce the draw for the Child Care Expansion Reserve Fund to \$12.720 million.

RECOMMENDATIONS

The General Manager, Children's Services recommends that:

- 1) City Council amend the proposed Children's Services 2015 Operating Budget to reflect the 2015 provincial funding allocation as follows:
 - a) an additional \$28.411 million in provincial funding;
 - b) a reduction of \$0.500 million to the recommended 2015 draw from the Child Care Expansion Reserve Fund;
 - c) an expenditure increase of \$5.331 million gross, \$0 net; for service standard adjustments detailed in recommendation 5) a, b, c;
 - d) an expenditure increase of \$2.052 million gross, \$0 net; to administer the Wage Enhancement program fully funded by the Province; and
 - e) an additional \$20.528 million gross, \$0 net; to fund child care operators as part of the provincial Wage Enhancement program, in consultation with the City Solicitor.

- 2) City Council authorize the General Manager of Children's Services General Manager:
 - a) to flow up to an additional \$20.528 million gross, \$0 net; to child care operators for the provincial Wage Enhancement program,
 - b) to enter into new contracts and amend existing contracts as required to promote and administer the Wage Enhancement program, ensure accountability and implement system changes, in consultation with the City Solicitor; and
 - c) to work with Human Resources and Labour Relations staff to determine how to best implement the program for impacted staff in the City's directly operated child care and home child care agency.

- 3) City Council amend the Recommended Children's Services and Parks Forestry and Recreation 2015 Operating budgets, through an interdivisional charge/recovery to reflect the following:
 - a) A transfer of \$0.725 million of the \$2.2 million contribution from the National Child Benefit Supplement Reserve, included in Children's Services 2015 Recommended Budget, is recommended to be reallocated to fund Middle Childhood expansion in 2015. Expansion targets include 10 new Afterschool Recreation and Care (ARC) programs, in partnership with Parks Forestry and Recreation (PFR), serving approximately 300 school-age children; and

- b) Increase PFR's gross expenditure budget by \$0.760 million, \$0 net, funded by \$0.725 million through interdepartmental recovery (IDR) from Children's Services. Additional funding of \$0.035 million in 2015 is based on Council approved user fees for the ARC program. Parks, Forestry & Recreation's complement will be amended to include 9.8 FTE in 2015.
- 4) General Manager, Children's Services report to Council in 2015 on a long-term strategy to address the division's projected shortfall and to ensure the continued viability of new ARC programs beyond the life of the National Child Benefit Supplement Reserve and the Child Care Expansion Reserve.
- 5) City Council approve the following service standard adjustments for inclusion in the 2015 Recommended Operating Budget for Children's Services:
 - a) the number of fees subsidies for infant, toddler, and pre-school age groups be increased by 184, for a total of \$3.371 million;
 - b) funding for Special Needs Resourcing be increased by \$0.360 million;
 - c) following Council approval of a recommended Funding Model, increase base funding by \$1.6 million to support the transition to a new funding model and begin to address current funding inequities in the child care system; and
 - d) expansion of ARC by 10 programs in 2015, with locations to be selected by Children's Services and PFR, serving approximately 300 school-age children.

FINANCIAL IMPACT

The 2015 Recommended Operating Budget for Children's Services, developed prior to the announcement of the Province's 2015 allocation for Children's Service, is \$424.494 million gross, \$76.716 million net. It includes a projected 1% increase in provincial funding of \$2.960 million and a \$13.220 million withdrawal from the Child Care Expansion Reserve Fund to maintain 2014 service levels.

On January 13, 2015, the City received notification from the Province of its 2015 base funding allocation. Funding from the Ministry of Education will increase from \$296.018 million to \$304.809 million, an increase of \$8.791 million or 3%. There is no net impact from the additional funding on the 2015 Recommended Operating Budget for Children's Services. Gross expenditures will increase by \$5.331 million \$0 net, and includes a reduction of \$0.500 million in the recommended withdrawal from the Child Care Capital Expansion Reserve Fund, which will reduce the recommended withdrawal from the Child Care Expansion Reserve Fund to \$12.720 million.

On January 20, 2015, the Province formally announced a new Provincial Wage Enhancement program to support the licensed child care sector. As service system manager, the City will be required to promote, implement and administer this program. Children’s Services has been allocated an expenditure increase of \$2.052 million gross, \$0 net, to administer the Wage Enhancement program, fully funded by the Province. This amount reflects 10% of the City’s projected 2015 total allocation for Wage Enhancement, of \$20.528 million, which is fully funded by the Province.

A transfer of \$0.725 million of the \$2.2 million contribution from the National Child Benefit Supplement Reserve Fund, included in Children's Services 2015 Recommended Budget, has been reallocated to fund Middle Childhood expansion in 2015 for 10 ARC programs, in partnership with PFR, serving approximately 300 school-age children This transfer has no net impact on the 2015 Recommended Operating Budget for Children's Services.

There is no net impact from the additional funding on the 2015 Recommended Operating Budget. Gross expenditures increase by \$27.911 million gross, \$0 net, and include a reduction of \$0.500 million in the budgeted withdrawal from the Child Care Expansion Reserve Fund. The following table summarizes the budget impacts.

(in \$000s)				
	Gross	Revenue	Reserve Draw	Net
2015 Recommended Operating Budget*	424,493.6	334,557.7	13,219.5	76,716.4
2015 Funding Announcement	5,331.0	5,831.0	-500.0	0.0
Wage Enhancement	22,580.0	22,580.0		0.0
 Ammended 2015 Recommended Operating	 452,404.6	 362,968.7	 12,719.5	 76,716.4

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>

City Council at its meeting July 16, 17, 18, 19 2013, adopted the Toronto Child Care Funding Model report. This report endorses the principles and evaluation criteria to guide the development of a new Toronto child care funding model

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.CD22.5>

City Council at its meeting of June 11, 12, 13, and 2013 adopted the Middle Childhood Strategy Implementation Plan, A Time for Action. The plan was developed to outline how the Middle Childhood Strategy, adopted by Council in October 2012, will be put into action.

<http://www.toronto.ca/legdocs/mmis/2012/cd/bgrd/backgroundfile-50756.pdf>

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 streamlines the way in which the Province flows funds for child care to municipalities and provides greater flexibility for municipalities to allocate resources based on local need. A proposed new child care funding model for Toronto, the mechanism through which the City flows resources to service providers and families, will be presented to Council in the second quarter of 2015. The model will continue to place priority on fee subsidies while beginning to address affordability for younger children through base operating grants to operators. Present funding levels provide for 24,932 fee subsidies, only enough for approximately 33 per cent of Toronto's low-income children (based on Statistics Canada's after-tax Low Income Measure), and the waiting list for fee subsidy is 16,500 children.

The new Provincial formula includes a Utilization Allocation that recognizes those Municipalities that contribute above their minimum required cost share. In 2014 and 2015, the City received \$15.6 million and \$16.9 million respectively, through this allocation. Cost sharing requirements are frozen at 2012 levels.

In 2014, the City's Utilization Allocation was based on it investing \$25 million above its minimum required contribution in 2013. The \$25 million covered the cost of approximately 2,000 fees subsidies, which Council added to Children's Services service levels in 2006 using one-time Best Start resources, provided to the City as a result of the cancellation of the Federal Government's Early Learning and Child Care Agreement with Ontario. Ongoing additional investment is required to maintain Council mandated service levels upon expiry of the Child Care Expansion Reserve Fund, contemplated in 2017. As a result of this higher contribution, the City received \$16.9 million in Utilization Allocation from the Province in 2015. 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.

On January 20, 2015, the Province formally announced a new Provincial Wage Enhancement program to support the licensed child care sector. As service system manager, the City will be required to promote, implement and administer this program. Children's Services has been allocated an expenditure increase of \$2.052 million gross, \$0 net; to administer the Wage Enhancement program fully funded from provincial funding. This amount reflects 10 percent of the City's projected 2015 allocation for Wage Enhancement, which is estimated up to \$20,528 million of 100 percent provincial funding. The total funding allocation will be confirmed through the application and eligibility process and Wage Enhancement expenditures must be reported separately from the divisions' core budget.

Toronto's Middle Childhood Strategy Implementation Plan (A Time for Action), outlines the need for increased access to high-quality out-of-school-time programs for children aged 6 to 12. The General Managers of Children's Services (TCS) and Parks, Forestry and Recreation (PF&R) and Toronto Employment Social Services (TESS) agreed in July 2014 that a strategy should be developed to incrementally add After-School Recreation and Care (ARC) care programs for children 6 to 12 years, initially using the National Child Benefit Supplement Reserve Fund as a way to enhance service for more vulnerable families. Allocating funding to expand services for 6 to 12 years olds, benefits low income families with children by enabling parents to continue to attend work or school. New provincial funding has allowed Children's Services to redirect funding from the National Child Benefit Supplement Reserve Fund to invest in expansion of Middle Years programs.

Table 1 summarizes the City's funding allocation from the Province.

Table 1
Changes in Provincial Funding from 2014 to 2015
(000's)

	2014	2015	Change	% (Inc./Dec)
Core Service Delivery	241,456	247,703	6,247	2.59
Special Purpose	37,499	38,904	1,405	3.75
Utilization Grant	15,660	16,940	1,280	8.18
Capital Retrofits	1,403	1,262	(141)	(10.06)
Total Excluding Wage Enhancement	296,018	304,809	8,791	2.97
Wage Enhancement - Administration	-	2,052	2,052	n/a
Wage Enhancement - Program	-	20,528	20,528	n/a
Total	296,018	327,389	31,371	10.60

COMMENTS

In recent engagement sessions with families, the City asked parents for their investment priorities in the child care system. 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 for all families. Recommendations in this report focus on improving access to child care for those families most in need and directing a small portion of resources (\$1.6m) to address affordability issues for families accessing care. Base funding will be increased for child care operators to begin to improve affordability for younger children and address current inequities in the child care system.

Investment Strategy and Service Standard Adjustments Summary

Table 2 summarizes the investment strategy recommended in this report.

It includes a reduction on the draw from the Child Care Expansion Reserve Fund of \$0.500 million, reducing the recommended 2015 draw to \$12.720 million. Going forward, the Province must continue to increase funding minimally by the cost of living. Failure to do so will result in a \$7 million incremental annual pressure. Similarly, if the City's investment in child care declines, the provincial Utilization Grant will also be reduced.

Table 2

Additional Provincial Funding Allocation	
	(\$ millions)
Provincial Funding Increase	\$31.371
Special Needs - Legislated	\$0.360
1% Projected Increase (already in 2015 Recommended Budget)	\$2.960
Funds Available for Investment	\$28.051
Increase infant, toddler and preschool subsidies by 184 spaces	\$3.371
Increase in Base Funding	\$1.600
Reduce Draw from the Child Care Expansion Reserve Fund	\$0.500
Wage Enhancement - Administration	\$2.052
Wage Enhancement - Program	\$20.528
Total	\$31.371

Children's Services will report to Council on a long-term strategy that will incrementally replace reserve fund contributions with adjustments to its base budget.

Funding Families: Fee Subsidy

The number of licensed child care spaces in Toronto serves less than 20 per cent of the child population age 0-12, meaning that the majority of children are cared for in unlicensed, unregulated, and potentially low-quality settings. Current funding levels provide for 24,932 fee subsidies, enough for approximately 33 per cent of Toronto's low-income children (based on Statistics Canada's after-tax Low Income Measure).

Since 2013, Children's Services has used increases in provincial funding to support on-going legislated funding requirements and to increase the number of child care subsidies available. At present, 22,932 subsidies are supported by provincial resources. The remaining 2,000 subsidies are funded by the City, through Children's Services revenues and the Child Care Expansion Reserve Fund, to maintain service levels. The 2,000 fees subsidies, which Council added to Children's Services service levels in 2006, uses one-time Best Start resources provided to the City as a result of the cancellation of the Federal

Government's Early Learning and Child Care Agreement with Ontario. These resources were placed in the Child Care Expansion Reserve Fund.

With more than 16,500 families waiting for child care subsidies and only 20% of Toronto's children having access to licensed child care, demand is evident. Access to fee subsidy can be improved with an increase of 184 fee subsidies, as recommended in this report. Providing additional fee subsidies and access to quality licensed child care will enable parents to remain at work or in school and will stabilize potentially vulnerable families.

Funding Child Care Programs:

Currently, the City supports child care affordability in two ways:

- 1) By providing fee subsidies to eligible families based on a provincially-mandate income test (\$314 million invested in 2014); and
- 2) By partially base funding the operating costs of some child care programs through various grant programs (\$54.8 million invested in 2014). These grants are primarily wage subsidies (\$49 million) paid to operators to maintain staff salaries and the payment of occupancy costs to school boards (\$5.8 million) on behalf of child care operators located in schools. Parents experience lower child care fees as a result of the provision of grant-based funds to operators. Approximately 13% of the division's budget is currently invested in base funding.

The impact of the grant-based funding paid to operators varies significantly across the city. For an infant space base funding can reduce parent fees from \$1.34 per day to \$29.93 per day, depending on the location. In response to concerns regarding the variation in grants and their impact on affordability, Children's Services has consulted with parents, operators and stakeholders on a new Funding Model for Toronto. The City's priorities in implementing the new model are to expand service and support system growth for younger children, increase access and affordability to high quality child care for families and provide equitable and stable funding to child care operators.

On December 11, 2012, the Province presented a new funding framework and funding formula to support child care in Ontario. This framework streamlines the way in which the Province flows funds for child care to municipalities and provides greater flexibility for municipalities to allocate resources based on local need. A proposed new child care funding model for Toronto, the mechanism through which the City flows resources to service providers and families, will be presented to Council in the second quarter of 2015. The model will continue to place priority on fee subsidies while beginning to address affordability for younger children, system inequities and provide direction for future investments. The model will not result in existing child care operators losing current base funding; assuming service levels and programs are unchanged.

In anticipation of a new funding model, this report recommends that \$1.6 m or 13% of the 2015 funding increase be allocated to support the transition to the new model with a

view to begin addressing inequities in the system. These funds would not flow until Council has approved the new model.

Funding the Child Care System: Wage Enhancement

On January 20, 2015, the Province formally announced a new Provincial Wage Enhancement program to support the licensed child care sector. As service system manager, the City will be required to promote, implement and administer this program. Children's Services has been allocated an expenditure increase of \$2.052 million gross, \$0 net; to administer the Wage Enhancement program fully funded from provincial funding. This amount reflects 10 percent of the City's projected 2015 allocation for Wage Enhancement, which is estimated up to \$20,527,970 of 100 percent provincial funding. The total funding allocation will be confirmed through the application and eligibility process and Wage Enhancement expenditures must be reported separately from the divisions' core budget.

The wage enhancement will benefit low-income child care program staff in the sector, help to retain Registered Early Childhood Educators (RECEs), and support access to stable, high quality child care programs for children. The enhancement will also help close the wage gap between registered early childhood educators (RECEs) working in full-day kindergarten programs and RECEs/child care professional in licensed child care settings.

The wage enhancement will support an increase of \$1 per hour in 2015, plus 17.5 percent benefits, with an additional increase in 2016. In addition, a Home Child Care Enhancement Grant (GCCEG) will support an increase of up to \$10 per day in 2015 for licensed home child care providers.

Within the City's directly operated child care and home child care agency, some staff will be eligible for wage enhancement funding. The General Manager of Children's Services will work with Human Resources and Labour Relations staff to determine how to best implement the program for impacted staff in the City's directly operated child care and home child care agency.

As service system manager, the City will be required to promote, implement and administer the program across the sector. The division will be required to amend its existing contracts with 664 agencies, and enter into new contracts with up to 280 additional child care operators, in order to administer the Wage Enhancement program. In order to receive funding, operators must complete an application process to demonstrate eligibility. An operator application process must be posted to the Children's Service website no later than May 1, 2015.

Funding the Child Care System: Special Needs Resourcing

The Province, through its funding formula, prescribes funding allocations to a number of areas, including Special Needs. 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, \$0.360 million of the funding increase has been allocated to services that support children with extra support needs.

Funding the System: Middle Childhood Programs

FDK was fully implemented in September 2014 and is now in every elementary school in the Province. As FDK has been introduced, the Province and the City have provided funding to allow child care operators to retrofit space previously used for four and five year olds to serve younger children. As of December 2013, infant and toddler spaces in Toronto had increased by 71 and 810 respectively.

Full-Day Kindergarten has also had an impact on care for school-aged children. As children age out of expanded kindergarten before- and after school programs, the demand for programs for six to 12 year olds has been exacerbated.

The City's Middle Childhood Strategy recognizes the need to increase access to age-appropriate programs for six to 12 year olds. As a priority, Children's Services is partnering with other divisions to improve access to middle childhood services in identified areas of the city. The landscape of programming for six to 12 year-olds in Toronto is highly complex, involving multiple service providers, funding scenarios and stakeholders. According to the 2011 Statistics Canada Census, there are approximated 179,205 children between the ages of six and 12 years living in Toronto. The current capacity or number of spaces available through licensed child care for this age group is 16,002, representing less than 9% of the population. After School Recreation and Care (ARC) programs continue to be an important quality model of recreation based after-school programming that will serve as a tool in advancing the Middle Childhood Strategy. The 28 ARC programs currently provide access to care for up to 865 children daily. After-School Recreation Care programs increase service access by providing affordable after school programs to children in the City's highest need neighbourhoods. Registration costs average \$2.39 per day in 2015, with Welcome Policy available for eligible families to ensure free access to programs. PF&R employs more than 140 youth annually to deliver the ARC programs in these neighbourhoods.

Toronto's Middle Childhood Strategy Implementation Plan (A Time for Action), outlines the need for increased access to high-quality out-of-school-time programs for children aged 6 to 12. The General Managers of Children's Services (TCS) and Parks, Forestry and Recreation (PF&R) and Toronto Employment Social Services (TESS) agreed in July 2014 that a strategy should be developed to incrementally add After-School Recreation and Care (ARC) care programs for children 6 to 12 years, initially using the National Child Benefit Supplement Reserve Fund as a way to enhance service for more

vulnerable families. Allocating funding to expand services for 6 to 12 years olds, benefits low income families with children by enabling parents to continue to attend work or school.

A transfer of \$0.725 million of the \$2.2 million contribution from the National Child Benefit Supplement Reserve, included in Children's Services 2015 Recommended Budget, is recommended to be reallocated to fund Middle Childhood expansion in 2015. Expansion targets include 10 new ARC programs, in partnership with Parks Forestry and Recreation, serving approximately 300 school-age children.

Children's Services and Parks, Forestry and Recreation Divisions are working in partnership to expand middle childhood programs for children 6-12. This partnership includes collaboratively planning site selection for new ARC and other community program sites, related data analyses and mapping activities, and broader system planning for middle childhood program expansion through ongoing conversation and co-representation on various Middle Childhood Work Groups.

Children's Services General Manager will report to Council in 2015 on a long-term strategy to address the division's projected base funding shortfall and to ensure the continued viability of new ARC programs beyond the life of the National Child Benefit Stabilization Reserve Fund.

Conclusion

The investment strategy recommended in this report supports 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 and introduces solutions for families with school age children. These changes have no impact on the division's recommended net operating budget.

CONTACT

Shanley McNamee, Director
Strategic Business & Financial Services
Children's Services Division
Tel: 416-392-8284
Email: smcname@toronto.ca

SIGNATURE



Elaine Baxter-Trahair, General Manager
Children's Services