



STAFF REPORT ACTION REQUIRED

Growing Toronto's Licensed Child Care System

Date:	October 5, 2016
To:	Community Development and Recreation Committee
From:	General Manager of Children's Services
Wards:	All
Reference Number:	

SUMMARY

This report responds to a request for the General Manager, Children's Services to develop a multi-year growth strategy for the City of Toronto's licensed child care system.

As an integral piece of this work, Toronto Children's Services commissioned a research team from the University of Toronto to study the demand for and affordability of licensed child care in Toronto. This report considers the results from the research study and the implications for growing Toronto's child care system. This report also considers growth forecasts in Toronto's child population over the next 15 years, which the Ontario Ministry of Finance estimates to be almost 23 per cent. Together, these two pieces provide the basis for a strong, evidence-based growth strategy for child care in Toronto.

In addition, recently announced provincial and federal funding programs may have significant implications for Toronto's child care system. These opportunities are explored in greater detail in this report.

From the research study, Toronto Children's Services now has a custom model that can be used going forward to simulate the impact of investments in capacity and affordability on the demand for licensed child care. This report outlines next steps for using this model to develop a growth strategy for Toronto, once more information becomes available on federal and provincial funding commitments.

A number of recommendations are made to Council for working with the provincial and federal governments to fund growth in Toronto's licensed child care system in order to address both capacity and affordability.

RECOMMENDATIONS

The General Manager, Children's Services recommends that:

- 1) City Council acknowledge that growing the child care system requires investment by all three orders of government to address both capacity and affordability.
- 2) City Council request that the province accompany any new provincial initiatives that expand the early learning and child care system, including capital investments and growth in school age programs, with investments in additional fee subsidies and other measures that address affordability barriers for families.
- 3) City Council request the federal government to address affordability of child care for all families as it establishes a National Framework on Early Learning and Child Care.
- 4) City Council request that, upon receipt of additional information on the anticipated federal and provincial commitments, Children's Services report back with an early learning and child care growth strategy that is informed by data from the Licensed Child Care Demand and Affordability Study.

Financial Impact

The adoption of recommendations included in this report has no financial impact on the City. Future municipal commitments to maintain the 80/20 per cent cost share ratio will be subject to Council approval when future provincial investments are obtained.

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

Equity Impact

Not all families have the same access to licensed child care in Toronto, based on factors that include income and other structural inequities. Fee subsidies support families with financial need to access child care. Toronto Children's Services ensures fee subsidies are equitably delivered across the city and available to children of all ages based on the practices of age and geographic equity. Service needs vary across different population groups. This report shows how different policies for growing Toronto's licensed child care system can have a different impact on access.

DECISION HISTORY

At its meeting of May 5, 6, and 7, 2015, City Council approved the Children's Services 2015-2019 Service Plan and capital strategy and asked the General Manager, Children's Services to develop a multi-year growth strategy for licensed child care in Toronto.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.CD3.3>

ISSUE BACKGROUND

Investing in early learning and child care is an important pillar of labour force development and child development, both of which support poverty reduction and other City of Toronto priorities. Having access to affordable child care allows women (who tend to bear responsibility for child rearing), to increase their permanent and full-time participation in the labour force, which contributes to economic growth. Children's participation in high quality early learning and care programs supports their best possible start during a sensitive developmental period, which can improve health, education and employment outcomes later in life.

Provincial and federal investments in growing the child care system

Early Learning and Child Care is high on the agendas of both provincial and federal governments. With the tabling of its first budget, the federal government committed to investing \$500 million in 2017-18 to support the establishment of a new National Early Learning and Child Care Framework, with \$100 million earmarked for Aboriginal programs. The federal and provincial governments are currently discussing the nature of this agreement.

On September 12, 2016 the Ontario Government committed to creating 100,000 new child care spaces for children from birth to 4 years old within the next five years. Based on past investments, Toronto's proportion is expected to be 30 per cent or approximately 30,000 spaces. Provincial legislative changes also require school boards to provide after-school programs to all children aged 4 to 12 where there is a need. For these reasons, Toronto's licensed child care system is expected to grow considerably across all age groups. Without more details on funding commitments and a strategy that addresses both access and affordability, it is difficult to begin planning for this growth.

Other important considerations for growing Toronto's child care system

Planning for growth in the licensed child care system must take into consideration forecasted changes in the child population, which is expected to grow in Toronto over the next 15 years. While Toronto City Planning does forecast population changes, these forecasts are not available for the child population specifically. This report draws on the Ontario Ministry of Finance's report *Ontario Population Projections Update, 2015–2041*, which forecasts a 23 per cent increase in Toronto's population from birth to age 9 between 2015 and 2031.

The decisions that parents make about whether to enter the work force, and what care arrangements to use for their children are complex and based on a variety of factors. A deeper understanding of how these factors influence the decisions of Toronto families is necessary for supporting and planning growth in Toronto's licensed child care system.

Reliable information on the demand for licensed child care in Toronto has not been available, nor is there a national or international standard for measuring demand or affordability. For this reason, the City of Toronto commissioned Dr. Gordon Cleveland and Dr. Michael Krashinsky from the Department of Economics at the University of Toronto to study the demand and affordability of licensed child care in Toronto.

The results from this research study provide a framework for understanding how best to support growth in Toronto's child care system. It also provides the City of Toronto with a custom model that can be used going forward to simulate the impact of investments in capacity and affordability on the demand for licensed child care.

COMMENTS

The Licensed Child Care Demand and Affordability Study found that 50 per cent of Toronto's families would choose licensed child care for their children under the age of 6, if it cost less than 10 per cent of net family income (after tax and benefits). This is equivalent to almost 80,000 children birth to age 5. However, the Study also found that for 75 per cent of Toronto's families, current child care costs would account for more than 10 per cent of family income.

These results highlight that growth must simultaneously address affordability and capacity. Growing capacity without addressing affordability would increase the likelihood of vacancies in child care spaces since most families cannot afford the cost of care. Although improving affordability would help those currently with a space, it would not increase access for those without a space.

These results, together with forecasted growth in the child population, and information that is currently available about provincial and federal funding commitments, provide initial insights into the growth that will be required for Toronto's child care system.

Licensed Child Care Demand and Affordability Study

The research study commissioned by the City of Toronto has built and tested models for measuring the impact that changes to the licensed child care system in Toronto (such as cost or capacity), will have on the demand for and affordability of child care. The research team's Final Report (available at www.toronto.ca/children) describes these models in detail, and highlights their capabilities for ongoing analysis and planning. The Executive Summary is attached to this staff report.

The Study used data from Statistics Canada and the City of Toronto to build two economic models of demand for licensed child care in 2015, one for birth to age 5, and one for ages 6 to 9, because parental employment and care decisions tend to change for each group. Age categories are based on the Survey of Young Canadians, a primary data source used in the models that did not collect information on 10 to 12 year olds. The Study used the birth to age 5 model to simulate policies that reduce child care costs and their impact on demand and affordability. The emphasis on this younger age group

reflects the recent provincial announcement to create new spaces for children from birth to age 4, and the high costs of care for younger children.

The Study also created two measures of affordability for licensed child care. One model is based on the potential earnings of the main caregiving parent and the other is based on total family income. Both measures account for the effect of taxes, child benefits, and child care tax deductions or credits on the affordability of child care. Additionally qualitative data was collected through eight focus groups held in different communities across Toronto, and a survey on child care and employment patterns of Toronto families in 2016. More information about the methods and data sources used in this Study can be found in the Technical Report (also available at www.toronto.ca/children).

Results: Demand and affordability in Toronto

The results from this research study help inform how best to grow the licensed child care system in order to meet the needs of Toronto's children and families.

- 1) Demand for licensed child care rises significantly when it is more affordable.
 - The Study found that approximately 50 per cent of Toronto's families would choose licensed child care if it cost less than 10 per cent of family income (after tax and benefits).
 - However, the Study also found that for 75 per cent of Toronto's families, child care costs would account for more than 10 per cent of family income.
 - The Study uses 10 per cent of family income as a benchmark for affordability based on several international research studies and policy reports, recognizing that these costs can still be a financial burden for many families.
- 2) Access to child care has a strong relationship to full-time employment and labour force participation.
 - The Study found that when child care costs are limited to 10% of family income, the probability of a main caregiving parent being employed full-time increases to almost 60%, compared to 47% under current conditions.
- 3) Current demand for licensed child care is constrained by high costs and cannot grow significantly without addressing affordability.
 - Under current conditions, the Study found that there is some room to increase Toronto's system by just over 7,300 new spaces – approximately 4,000 spaces for children from birth to age 5, and 3,250 for ages 6 to 9, as shown in Table 1.

Table 1: 2015 Demand for licensed care under current constrained conditions

	2015 Supply	2015 Demand	Difference
Licensed spaces (0-5)	47,136	51,205	+4,069
(Percent of population)	(28%)	(31%)	(+3%)
Infant	3,311	3,710	+399
Toddler	9,087	10,510	+1,423
Preschool	22,769	23,415	+646
Kindergarten	11,969	13,570	+1,601
Licensed spaces (6-9)	18,728	21,975	+3,247
(Percent of population)	(17%)	(20%)	(+3%)
Total licensed spaces	65,864	73,180	+7,316
(Percent of population)	(24%)	(27%)	(+3%)

- 4) Toronto's fee subsidy system is helping improve access to child care among certain populations based on income and geography.
- Table 2 shows that lower income families are particularly likely to demand licensed child care because of access to fee subsidies. Whereas higher income families are presumably less constrained by the costs of care, middle income families are the least likely to demand child care because even if they receive partial fee subsidy, their incomes are not enough to afford the high costs of care.

Table 2: Probability of using licensed care (including subsidized families) by expected household annual income.

Expected Household Annual Income (Before Tax)	Probability of using licensed care	Probability of main caregiving parent being employed full-time
Less than \$50,000	37.5%	46.7%
\$50,000-\$99,999	28.5%	45.0%
\$100,000 or more	33.3%	50.9%

- Table 3 divides Toronto's 140 neighbourhoods into quartiles based on median income. It shows that when subsidized families are included, the percent of families using licensed child care becomes more equal across the quartiles.

Table 3: Use of licensed care by neighbourhood income quartiles

Neighbourhood Quartiles by Median Income	Percent of <u>unsubsidized</u> families using licensed care	Percent of all families using licensed care (includes subsidized and unsubsidized)
Lowest 25%	17.3%	28.8%
Second 25%	20.6%	33.3%
Third 25%	25.6%	33.5%
Highest 25%	30.7%	35.5%

- 5) If more fee subsidies were available to eligible families, demand for licensed child care would increase.
- If fee subsidy was offered to every eligible child from birth to age 5, demand for licensed child care would increase substantially from approximately 51,000 to over 76,000 children. As a percent of the total population birth to age 5, this represents an increase from 31 per cent to 45 per cent.
 - Almost 80 per cent of those children would receive either a full or partial fee subsidy in such a scenario, double the approximately 39 per cent of children in licensed care in 2015 who had subsidy. The simulation accounted for the fact that not all eligible families would necessarily want fee subsidy, either because of a preference for other care arrangements, or the partial subsidy would be too small.
- 6) Focus group results found that:
- Newcomer families face significant barriers to accessing the fee subsidy system due to language barriers, lack of knowledge about the service, and difficulties navigating the system. Demand can vary between newcomer communities.
 - Families in more precarious (part-time, temporary) employment arrangements often do not qualify for fee subsidy and struggle to afford the cost of child care.
 - Aboriginal families primarily demand licensed child care services that are offered by Aboriginal service providers. However, access to fee subsidy and location are important factors for these families.

Population Growth

Forecasted growth in the child population must also be considered. In its report *Ontario Population Projections Update, 2015–2041*, the Ontario Ministry of Finance forecasts that Toronto's child population will grow by just under 23 per cent over the next 15 years (until 2031) to a total of 344,771 children from birth to age 9.

Assuming this new population has similar demand patterns to Toronto families in 2015, Toronto would require enough spaces to serve 26 per cent of the child population from birth to age 9 (32 per cent of children birth to age 3, 25 per cent of 4 and 5 year olds, and 20 per cent of 6 to 9 year olds). This would require over 23,000 additional spaces across all age groups, as shown in Table 4.

The 2016 Child Care Capital Expansion report identified 4,661 spaces for infants, toddlers and preschool children with approved funding to be built over the next ten years, leaving an additional 6,000 spaces for those age groups. At an average cost of \$57,000 per space for children birth to age 3, the capitals costs for building those spaces is approximately \$342 million in 2015 dollars, excluding the costs of land. It is assumed

that there are no capital costs associated with expansion of Kindergarten or school-aged spaces in schools.

Table 4: Estimated demand for licensed care in 2031 under constrained conditions

	Demand (% of child population)	Demand (# of spaces required)	Difference from 2015 Supply	Difference from 2016 Capital Expansion	Estimated Capital costs
Ages 0 to 3	32%	45,835	10,668	6,007	\$342 million
Ages 4 to 5	25%	17,239	5,270	N/A	\$0
Ages 6 to 9	20%	26,517	7,789	N/A	\$0
Total	26% (avg)	89,591	23,727	6,007	\$342 million

In order to maintain the proportion of children in care who were subsidized in 2015, Toronto would require enough fee subsidies for 40 per cent of children in licensed care in 2031. As shown in Table 5, this would require approximately 8,400 new fee subsidies at a total annual cost of \$95 million, where the average fee subsidy is \$13,861 for children from birth to age 3, \$8,955 for 4 and 5 year olds, and \$7,384 for 6 to 9 year olds.

Table 5: Fee subsidies required in 2031 for 40 per cent of children in care, and costs.

Fee Subsidies	Percent of children in care subsidized	Number required by 2031	Difference from 2015 Actual	Additional annual costs	City of Toronto 20% share
Ages 0 to 3	40%	18,334	4,843	\$67 million	\$13.4 million
Ages 4 to 5		6,896	1,101	\$10 million	\$2 million
Ages 6 to 9		10,607	2,472	\$18 million	\$3.6 million
Total	40%	35,950	8,416	\$95 million	\$19 million

It is important to note that this scenario does not alter the affordability situation in Toronto, and only assumes that the same proportion of children in licensed child care would be subsidized. As the results from the Child Care Demand and Affordability Study show, meeting the needs of Toronto's families will require planning not only for a growing child population over the next 15 years, but also for addressing the affordability barriers that Toronto families face. This could be accomplished by increasing the proportion of children in care who are subsidized and by providing base funding to child care operators to off-set fixed costs.

Provincial Investments

The provincial announcement on September 12, 2016 focused on the creation of 100,000 new spaces for children from birth to age 4 across Ontario. Assuming Toronto receives its proportionate share of 30 per cent, expected funding would create the equivalent of 30,000 new spaces. While guidelines for this funding are not yet available, Toronto Children's Services assumes that a combination of funding will be available for capital, fee subsidies, and base funding or other affordability measures.

If all provincial funding was invested in capital without growth in the fee subsidy system, new spaces would be at a high risk of being vacant because the majority of Toronto families cannot afford the full costs of child care, even after taking into account population growth. If affordability is addressed, it is anticipated that something less than 30,000 spaces would be created, freeing up resources for subsidies and other affordability measures.

It is critical that the Province allows municipalities the flexibility to invest in both space and affordability measures, including fee subsidy, in a way that best meets local needs.

Next Steps

The Licensed Child Care Demand and Affordability Study found that demand for licensed child care is constrained by high costs and cannot grow significantly without addressing affordability. Under current conditions, the Study found that there is some room to increase the Toronto's system by just over 7,300 new spaces – just over 4,000 spaces for younger children, and 3,250 spaces for ages 6 to 9.

Once more detailed information becomes available from the federal and provincial governments regarding funding guidelines, Toronto Children's Services will use the information and models developed from the Licensed Child Care Demand and Affordability Study to report back on a growth strategy for Toronto's child care system that involves the three orders of government. Toronto Children's Services will also use these models to analyze and prioritize areas requiring investment in growth, and will update the Children's Services Capital Strategy accordingly.

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ATTACHMENTS

Executive Summary: Licensed Child Care Demand and Affordability Study