



REPORT FOR ACTION

Children's Services Amendment to the 2017 Operating Budget to reflect Increase in Provincial Contributions

Date: May 26, 2017

To: Budget Committee, Executive Committee

From: General Manager, Children's Services

Wards: All

SUMMARY

This report seeks approval to amend the 2017 Approved Operating Budget for Children's Services to reflect an increase of \$39.503 million in provincial funding. The funding includes an additional \$6.52 million in annual provincial base funding, reflecting a \$2.023 million increase over the \$4.5 million provincial allocation projected and included in the 2017 Approved Operating Budget, additional funding of \$34.45 million enveloped for service expansion, and a reduction of \$1.47 million in Provincial Wage Enhancement funding to reflect actual investment in 2016.

Expansion funding is provided for increased investment above the 2016 Service Levels for children aged 0-4. Expansion funding must focus on increasing access to affordable child care for children aged 0-4 including supporting additional fee subsidies, providing increased access to service and broadly reducing licensed child care fees.

To support the success of rapid growth, system planning and implementation, the province is providing municipalities with the ability to spend Expansion Plan funding and meet prescribed targets by December 31st, 2018.

This report recommends amendments to the 2017 Approved Operating Budget for Children's Services that support the Council-approved *Child Care Service Plan 2015 - 2019* and the Council approved *Toronto's Licensed Child Care Growth Strategy for Children Under 4, 2017-2026*.

RECOMMENDATIONS

The General Manager, Children's Services recommends that:

1. City Council amend the Children's Services 2017 Approved Operating Budget to:

- a. increase \$2.023 million in provincial base funding;
- b. approve an additional \$34.45 million in provincial expansion funding to increase access to affordable child care for children aged 0-4, including supporting additional fee subsidies, providing increased access to service and to broadly reduce licensed child care fees;
- c. reduce \$1.470 million in provincial funding for the Provincial Wage Enhancement program, which is fully funded by the Province.

2. City Council direct that the adjustment to the Service Levels and activities identified in Toronto's Licensed Child Care Growth Strategy, guide planning and investment of provincial expansion funding for 2017 including:

- a. an increase of 2,189 fee subsidies for children 0-4;
- b. an increase of \$0.837 million for Specials Needs Resourcing;
- c. an increase of \$1.446 million in General Operating Grant funding be made to eligible licensed child care programs, in accordance with City guidelines; and
- d. a 0.7 per cent increase of \$1.912 million for per diem increases to eligible child care operators.

3. City Council approve an additional 4 temporary positions and 20 permanent positions, fully funded by the Province, to support planning and implementation of system expansion and growth.

4. Given that new provincial funding for planning and implementation must be invested by December 31, 2018 and that any unused funds must be returned to the Province, City Council request the Deputy City Manager and Chief Financial Officer to contribute any 2017 under expenditure in Children's Services to the Child Care Expansion Reserve Fund for use in the 2018 fiscal year to meet provincially mandated expansion targets.

FINANCIAL IMPACT

In May 2017, the City received notification of its 2017 funding allocations from the Ministry of Education, which will increase the base funding and provide enveloped funding for system expansion.

The funding includes an additional \$6.52 million in annual provincial base funding, reflecting a \$2.023 million increase over the \$4.5 million provincial allocation projected and included in the 2017 Approved Operating Budget, additional funding of \$34.45 million enveloped for service expansion and a reduction of \$1.47 million in Provincial Wage Enhancement funding to reflect actual investment in 2016.

Prior to the announcement of the provincial funding allocation for 2017, Children's Services 2017 Approved Operating Budget included a base funding increase of \$4.834 million, comprised of \$4.5 million in base funding and \$0.334 carry forward of Provincial Wage Enhancement funding. Additional provincial funding will result in the following changes to the Approved 2017 Operating Budget:

Table 1

	Gross	Revenue	(in \$000s) Net
2017 Approved Budget	483,674.3	400,693.4	82,980.9
2017 Funding Announcement-Base	2,022.7	2,022.7	0.0
2017 Funding Announcement-Expansion	34,450.5	34,450.5	0.0
Wage Enhancement	-1,470.1	-1,470.1	0.0
Amended 2017 Recommended Operating	518,677.4	435,696.5	82,980.9

The 2017 Approved Operating Budget for Children Services, developed prior to the provincial announcement, is \$483.674 million gross and \$82.981 million net, and included a projected 1.5% increase in provincial funding of \$4.5 million to maintain Council approved service levels. The 2017 confirmed provincial allocation reflects an increase of \$35.003 million or 9.8% in provincial funding above the Approved 2017 Operating Budget.

Provincial expansion targets and deliverables create immediate pressure on the Division's resources which has resulted in this initial request for 24 positions; 4 temporary positions and 20 permanent. The 2017 Approved Operating Budget for the Division includes 982.4 positions, of which 280 support service system management and administration of mandated programs and services.

The 20 permanent positions, predominately caseworkers, contract management and support staff will administer new fee subsidies, support children with special needs, enter into new and expanded service contracts and ensure timely payments to operators. The permanent positions are directly related to growth and calculated based on expansion targets, taking into consideration current caseload size, benchmarks in other municipalities and span of control. The caseload size for Toronto's caseworkers continues to grow and even prior to new expansion targets exceeds caseload sizes in other municipalities.

Four temporary project management positions are required to lead business transformation, plan large scale growth and expansion, and develop system wide operational policies, procedures and accountability measures to ensure effectiveness of affordability measures for families.

New positions would be added October 1st, 2017 with a total 2017 impact of \$0.659 million and an annualized impact of \$2.634 million in 2018. All increases in staffing costs will be 100% provincially funded and will have no impact on the City's net budget. The additional funding identified in this report responds to the Provincial Expansion Plan and does not require a City contribution of administrative funding in 2017.

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 on November 8 and 9, 2016, adopted the report titled "Growing Toronto's Licensed Child Care System". The report outlines information on the Licensed Child Care Demand & Affordability Study which confirms the need for increased access to affordable child care in Toronto.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.CD.15.2>

On April 13th, City Council adopted Toronto's Child Care Growth Strategy. This 10 year strategy aims to create new child care spaces to meet demand, improve affordability for families and support a thriving workforce.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.CD19.2>

The growth strategy aligns with the Children's Services Service Plan and Capital Strategy, and with the Child Care Funding Model approved by City Council in 2016.

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

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.CD4.5>

BACKGROUND

Provincial and Federal Funding

On September 12, 2016, the provincial government announced its plan to improve access to licensed child care for 100,000 more children aged 0-4 years over the next five years. To support this commitment, the government made an investment of \$170 million in 2017, increasing its total investment in child care in Ontario to \$1.37 billion in 2017. The investment for the expansion plan is to grow to \$200 million in 2018.

In the first year of this provincial expansion plan, new funding for licensed child care will support approximately 16,000 more children 0-4 years old across the province. Funding will support new child care fee subsidies, expand access to affordable licensed child care spaces and reduce fee subsidy waitlists to help parents access quality child care.

Changes in provincial funding for Toronto from 2016 to 2017 are summarized in Table 2 below:

Table 2

Changes in Provincial Funding from 2016 to 2017 (000's)				
	2016	2017	Change	%(Inc./(Dec)
Core Service Delivery	250,151	262,698	12,546	5.0
Special Purpose	58,142	52,439	(5,703)	(9.8)
Capital Retrofits	320	-	(320)	(100.0)
Total Excluding Expansion	308,613	315,136	6,523	2.1
Expansion	-	34,451	34,451	n/a
Total Excluding Wage Enhancement	308,613	349,587	40,974	13.3
Wage Enhancement – Program	41,056	39,586	(1,470)	(3.6)
Wage Enhancement-Administration	2,053	2,053	-	-
Total	351,722	391,225	39,503	11.2

Similarly, the federal government has announced \$500 million for 2017-18 to support the development of a new National Early Learning and Child Care Framework, to be developed with provinces, territories and Indigenous communities. \$100 million of this is earmarked for Indigenous child care and early learning on reserve. On March 22, 2017, the federal budget announcement proposed an additional \$7 billion over ten years, starting in 2018-19, "to support and create more high quality, affordable child care spaces across the country". The budget plan indicates that the investment could support up to 40,000 new subsidized child care spaces in Canada in the next three years, and

also re-confirms that the federal government is working with provinces and territories to develop a National Framework. Federal allocations for Toronto will be the subject of a report to Council when they are known.

COMMENTS

The recent announcement of increased provincial funding for child care expansion is a welcome investment for Toronto. Toronto's allocation of \$34.4 million for expansion in 2017 will begin to address the resources needed to achieve the vision set out and approved by City Council in *Toronto's Child Care Growth Strategy 2017-2026*.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.CD19.2>

The Growth Strategy sets out a vision that in ten years (by 2026) the child care system will serve 50 per cent of children from birth up to four years and parent fees will be reduced by 25 to 40 per cent. The Strategy estimates that 30,000 additional child care spaces for children under the age of four will be required to serve 50 per cent of children by 2026.

This vision is based on the results of the Licensed Child Care Demand and Affordability Study, which was considered by City Council in November 2016. The study built economic models of demand for licensed child care in Toronto. It found that demand could rise to 50 per cent of children, but that current demand is constrained by costs that are unaffordable for most families. Other studies, such as one by the Canadian Centre for Policy Alternatives titled, "A Growing Concern: 2016 child care fees in Canada's big cities" have also highlighted the high cost of child care in Toronto.

The 2017 Provincial Expansion funding is an enveloped allocation and can only be invested on expenditures over and above the previous year's base expenditures for children aged 0-4 years, excluding children eligible to attend junior kindergarten. Any funding not spent on the prescribed expenditures will be recovered by the Ministry. To support the success of this commitment and to allow for sufficient local planning, the ministry is providing municipalities to December 31st, 2018 to invest these resources in accordance with Provincial direction.

Expansion plan funding is intended to address local needs and must be spent to support additional fee subsidies and increased access to child care. If these two priorities cannot be met due to local considerations, funding may be used to broadly reduce licensed child care fees and increase affordability for children aged 0-4 years. In order to maximize the value of provincial funding and support expansion planning and implementation, the Deputy City Manager and Chief Financial Officer requests authority to carry forward any 2017 net under expenditure to the Child Care Expansion Reserve Fund. This is necessary given the delayed timing of the provincial funding allocation and the need to put in place the resources required to address rapid growth and expansion. Any funds that remain unused as of December 2018 are to be returned to the Province.

Impact of 2017-2018 Provincial Expansion Allocation

Table 3 below outlines the funds available for investment in Toronto and recommends allocation of the funds for maximum impact across the sector.

Table 3

2017 Additional Provincial Funding Allocation	
	(\$ millions)
Provincial Funding Increase	\$39.503
Special Needs – Legislated	\$0.837
Provincial Wage Enhancement Adjustment	(\$1.470)
1.5% Projected Increase (already in 2017 Approved Budget)	\$4.500
Funds Available for Investment	\$34.166
Increase infant, toddler and preschool subsidies by 2,189 spaces	\$31.278
Increase Operator Per Diems	\$1.912
Increase in General Operating Grant (Base Funding)	\$1.4446
Growth & Management Administration	\$1.000
Total	\$39.503

Note: \$39.503 million is comprised of \$35.003 in new investment and \$4.5 million already projected and included as provincial funding in the 2017 Approved Operating Budget.

As new spaces are added the addition of 2,189 new fee subsidies, an annual investment of \$31.278 million, will improve access for families from 0-4 across the City. Affordability will be improved by increasing the number of fee subsidies for families in financial need. This will ensure that families have access to new spaces and new centres opening in 2017 and 2018.

Increased provincial base funding of \$1.912 million will be utilized to adjust actual cost rate increases for child care operators in 2017. This increase will ensure that eligible licensed child care programs, family support programs, special needs resource agencies and home child care agencies are funded for their actual costs in accordance with City budget guidelines.

As more families have access to licensed child care, the number of children with extra support needs is expected to increase. Additional funding to increase services for these children is included to ensure that all children have access to the system, in accordance with the City's "Every Child Belongs" policy.

The 2017 provincial allocation does not include any dedicated funding for capital expansion to build new child care centres. Children's Services is working with community partners, including child care operators, school boards and other City divisions, to increase the number of licensed spaces available. Over the next two years over 1,200 new licensed child care spaces will be delivered through the Children's Service Capital Plan and the Ministry of Education's capital program for which funds flow directly to school boards.

A \$1.446 million increase in the General Operating Grant will augment funds available to partially offset operating costs for programs and keep fees lower for all families. Before significant increases in the General Operating Grant can be made, measures are required for the City of Toronto to ensure that affordability initiatives are effective in supporting a thriving workforce and improving affordability for families.

A number of operational challenges associated with rapid growth need to be resolved. Significant work with child care operators is necessary in order to increase the community's capacity to accommodate this growth. In some cases, support may be required to strengthen the governance and administration of additional capacity. Similarly, strategies are required to ensure that there are enough qualified professionals to staff expanded programs. While Children's Services is reviewing current business practices for efficiencies, an expansion of this size creates a need for additional system management supports.

Additional resources needed to address rapid growth and expansion will be funded through the administration component that is included in the provincial funding allocation for expansion, with up to 10 per cent allowable for implementation. Currently Children's Services uses less than seven per cent of its budget for administration.

Provincial expansion targets and deliverables create immediate pressure on the Division's resources which has resulted in this initial request for 24 positions, 20 permanent and 4 temporary. It is expected that the positions would be in place by October 1, 2017 resulting in a 2017 cost of \$0.659 million and an annualized cost of \$2.634 million in 2018. All increases in staffing costs will be 100% provincially funding and will have no impact on the City net budget. The 2017 Approved Operating Budget for the Division includes 982.4 positions, of which 280 support management and administration of mandated programs and services for the second largest child care system in Canada.

The 20 permanent positions, predominately caseworkers and support staff will administer new fee subsidies, support children with special needs, enter into new and expanded service contracts and ensure timely payments to operators. The permanent positions are directly related to growth and calculated based on expansion targets, taking into consideration caseload size, benchmarks and span of control. Four temporary project management positions are required to lead business transformation, plan large scale growth and expansion, and develop system wide operational policies,

procedures and accountability measures to ensure effectiveness of affordability measures for families.

As growth continues, the Division will continue to balance the need for adjustments to staffing levels with efficiencies gained through implementation of business transformation and technology changes. Technology changes to operating systems are underway to streamline business processes, increase productivity and improve customer service. Further technical changes to operating systems are required to respond to transformation, sustain existing systems and ensure technology is enabled to respond to growth in the sector.

CONCLUSION

The recent announcement of increased provincial funding for child care expansion is a welcome investment for Toronto. Toronto's allocation of \$34.4 million for expansion beginning in 2017 will begin address the resources needed to achieve the vision set out and approved by City Council in *Toronto's Child Care Growth Strategy 2017-2026*.

The Growth Strategy sets out a vision that in ten years (by 2026) the child care system will serve 50 per cent of children from birth up to four years and parent fees will be reduced by 25 to 40 per cent. The Strategy estimates that 30,000 additional child care spaces for children under the age of four will be required to serve 50 per cent of children by 2026.

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SIGNATURE

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ATTACHMENTS
