



## Update on Provincial Funding Changes and Previously-Approved Child Care Capital Projects

**Date:** October 1, 2019

**To:** Economic and Community Development Committee

**From:** General Manager, Children's Services

**Wards:** All

### SUMMARY

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This report responds to a City Council request for an update on the potential service impacts of provincial funding changes and a report on school-based child care capital projects that were previously approved by the Ministry of Education. Capital costs of approximately \$87.0 million for these projects are fully funded by the Province, while service system managers must confirm that operating costs will be managed within their existing budgets.

In addition, this report provides a status update on the status of the Auditor General's recommendation which directed the City Manager's Office to review the costs as well as financial and non-financial benefits of Toronto Early Learning and Child Care Services using an evidence-based and measurable approach, as outlined in the 2018 report, *"Children's Services Division: Opportunities to Achieve Greater Value for Child Care from Public Funds"*.

### RECOMMENDATIONS

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The General Manager, Children's Services recommends that:

1. City Council authorize the General Manager, Children's Services to proceed with the joint approval process for 49 school-based child care capital projects, in cooperation with school boards.
2. City Council authorize the General Manager, Children's Services to proceed with the joint approval process for up to 20 additional school-based child care capital projects under the Ministry of Education's memo (July 22, 2019) known as B17, in cooperation with school boards and subject to funding approval from the Province.

## **FINANCIAL IMPACT**

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### Provincial Funding Changes

The provincial government has confirmed that on January 1, 2020, funding for child care expansion will transition from being 100 per cent funded by the Province to an 80/20 provincial and municipal cost-share. As a result, it is confirmed that the total provincial allocation for expansion plan funding will be reduced by \$15.0 million in 2020, from \$74.9 million to \$59.9 million.

This loss of funding could equate to the reduction of approximately 760 child care fee subsidies in 2020, which would result in a return to pre-2018 levels of approximately 29,940 available subsidies. Children's Services has included this pressure in its 2020 Operating Budget Submission which will be evaluated and considered with other City priorities through the 2020 Budget Process.

The Provincial government has also confirmed that previously announced changes to the administrative expense cost-share requirement and threshold will be phased-in beginning in 2021, and be completely implemented as of January 1, 2022.

A full financial and service impact analysis resulting from these changes will be conducted upon receipt of the City's detailed allocation and funding guidelines from the Ministry of Education, with any future pressures to be submitted through the Annual Budget Process. In anticipation of these changes, Children's Services is committed to continuing its efforts to modernize and streamline service delivery while meeting City Council approved plans and strategies and legislative requirements without adversely impacting child and family outcomes.

### School-Based Child Care Capital Projects

The report is requesting Council approval to jointly confirm that 49 school-based child care capital projects can proceed, in cooperation with the school boards. Capital costs for the 49 previously-approved child care projects described in this report are 100 per cent provincially funded, with funds for construction provided to school boards. Capital costs for B17 projects are also provincially funded.

Although the capital costs for these child-care centres will be funded by the Province, any impacts arising from operating these centres or through the provision of additional subsidies related to the added spaces are expected to be managed by the service system managers, funding for which is not included in the 2019 Operating Budget.

Given historical rates of completion of approximately three to five years from date of approval for school-based projects, no operating impacts are expected prior to 2022. Children's Services anticipates that some of these impacts will be mitigated through a combination of base funding, available fee subsidies, and incremental parent fees. Any remaining operating pressures will be submitted with the future year budget requests for

consideration against other City priorities and evaluated with all other new and enhanced requests.

The Chief Financial Officer and Treasurer has been provided the status of the proposed school-based capital projects and has been informed that operating impacts, if any, arising from the creation of additional school-based child care centres will be subject to evaluation for consideration with other City priorities as part of the future years' budget processes .

## **DECISION HISTORY**

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At its July 16 & 17, 2019 meeting, City Council requested the General Manager, Children's Services to work with the Toronto District School Board to identify locations for new facilities which have demonstrated demand and potential for financial viability with limited operating funding and report to the October 16, 2019 meeting of the Economic and Community Development Committee.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EC6.4>

On May 22, 2018, City Council requested the City Manager and General Manager, Children's Services to consider the recommendations outlined in the Auditor General report, "*Children's Services Division: Opportunities to Achieve Greater Value for Child Care from Public Funds*".

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.AU12.2>

On April 13, 2017, 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>

## **COMMENTS**

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### **Background**

#### Provincial Budget

Since the July 16 & 17, 2019 meeting of City Council, the Provincial government announced a new approach to the implementation of its previously announced child care funding and policy changes. On August 28, 2019, the Province confirmed that the funding changes will now be phased in over a three year period beginning in January 2020.

On January 1, 2020, child care expansion plan funding that was previously 100 per cent provincially funded will transition to an 80/20 provincial and municipal cost-share. In 2020, this represents a loss of \$15.0 million in provincial funding.

Beginning on January 1, 2021, Consolidated Municipal Service Managers (CMSM) and District Social Services Administration Boards (DSSAB) will be required to cost-share all administrative funding at a rate of 50/50. The final phase of the updated approach will reduce the allowable administrative expense threshold from 10 per cent to 5 per cent beginning in January 1, 2022. In order to support this transition, the Province has committed to seeking opportunities to reduce administrative burden requirements in partnership with service system managers.

In addition, the provincial government has signaled that it is actively working on the final 2020 budget allocations for early years and child care, and hopes to release this information in the fall of 2019. If possible, Children's Services will include any confirmed incremental impacts in its 2020 Operating Budget submission.

### School-Based Child Care Capital Projects

On April 26, 2019, the Ministry of Education distributed a memo about child care capital projects to child care and early years service system managers, including Toronto Children's Services. The memo indicated that capital funding for a number of previously-approved school-based projects remained available from the Province. For the City of Toronto, this represented a capital investment of approximately \$87 million and over 3,000 spaces. However, service system managers would have to confirm that any required operating funding would be managed from within their existing budgets. If this confirmation could not be provided, then the projects would not proceed.

In Toronto, 51 projects required decisions about whether or not to proceed. A joint confirmation from school boards and service system managers was due to the Province by August 30. Children's Services could not make determinations on the projects within that timeframe and therefore the projects were at risk of not proceeding. As a result, City Council adopted a recommendation to request a deadline extension from the Province.

Subsequently, the Province extended the deadline to October 31, 2019.

Later, on July 22, 2019, the Ministry initiated a new round of capital funding opportunities attached to school capital projects. Under this new memo (known as B17), school boards may request child care capital funding for school projects if the local service system manager both supports the need and confirms that the proposed new space will not result in an operating pressure. These proposals were initially due September 30, 2019 but the Ministry extended the deadline to October 31, 2019 so that all proposed capital projects could be considered together.

With all provincial school-based child care capital funding opportunities, Children's Services jointly identifies potential projects with the school boards. Projects are prioritized based on current child care spaces and confirmed expansions of spaces in a ward compared to the ward's population of children aged zero to four. Ultimately the Ministry of Education decides which projects to approve for funding, and some projects put forward by the school boards may fall outside of Children's Services highest priority areas.

## **Next Steps**

Since the projects were initially approved, one school board decided not to proceed with two projects. Children's Services will confirm to the Ministry of Education that the remaining 49 projects should proceed, assuming that school boards continue to be in agreement. Children's Services is working with the school boards to confirm feasible projects by the October 31 deadline, and anticipates that up to 20 B17 projects could be approved through this funding opportunity.

Since 2015, sixty-nine school-based projects have been approved to receive provincial funding, with only one project completed to date, and one more expected to open in Q1 2020. Increased provincial operating funding has been provided for 17 of these projects, meaning no operating impacts due to expansion will be realized until the 18<sup>th</sup> centre is operational. Given the historical trend of three to five years for project delivery from the date of approval, none of these remaining projects are expected to be operational prior to 2022, and likely not until 2025.

Children's Services previously estimated an annual, full-year operating impact of \$35.0 million for the 51 projects. As these projects are mandated to have a fee subsidy agreement with the City, this figure included costs to support estimated fee subsidy requirements and base operating funding for operators. Children's Services anticipates that these future impacts can be partially mitigated through a combination of general operating funding, fee subsidies, and incremental parent fees, and will include any additional pressures in the appropriate budget and plan submission if needed.

These projects will help move the child care system closer to the goals of the Child Care Growth Strategy. These provincially-funded capital investments will provide choice and access to full fee families and families with a fee subsidy by adding approximately 3,000 spaces at the known 49 sites. This added capacity is needed to move the City closer to the Child Care Growth Strategy target of 70,000 spaces by 2026. There is still a need for increased child care capacity in Toronto. While Children's Services expects that the projects under consideration will create viable services, continued capital growth without increased operating supports is not sustainable indefinitely.

## **Update on Auditor General Recommendation**

The City Manager's Office at the direction of Council is conducting a review of Toronto Early Learning and Child Care Services (TELCCS) that commenced in July 2019. The review is in response to the 2018 recommendations from the Auditor General and a motion from City Council which directed the City Manager's Office to review the costs as well as financial and non-financial benefits of TELCCS using an evidence-based and measurable approach. It is a joint project between the City Manager's Office and Children's Services, with executive leadership from the Deputy City Manager, Community and Social Services. A group of experienced academics and researchers from George Brown College and the University of Toronto has been engaged to lead the research for the project. The research team will conduct a thorough financial analysis, literature review, environmental scan, case studies, site visits, parent focus groups, and surveys to complete the objectives of the review. Results and a final report are expected in early 2020.

## **CONTACT**

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## **SIGNATURE**

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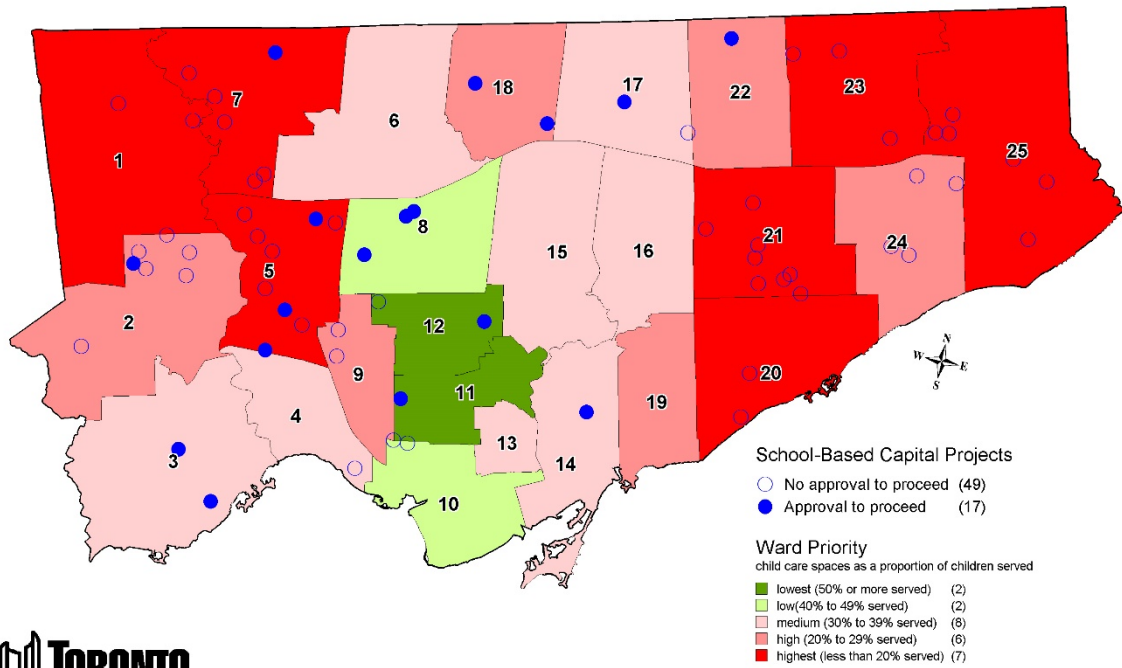
Shanley McNamee  
General Manager, Children's Services

## **ATTACHMENTS**

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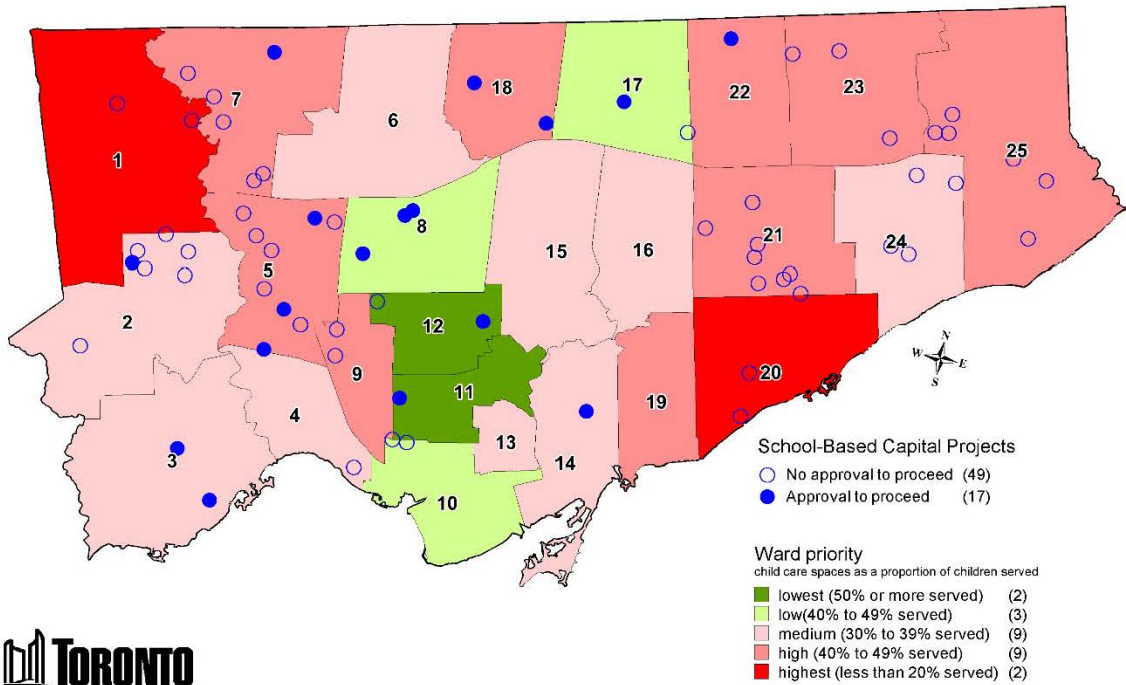
Appendix A   Map 1 – Ward Priority  
                  Map 2 – Ward Priority after B Projects

## Current Ward Priority for Early Years Child Care Spaces



September 2019

## Ward Priority for Early Years Child Care Spaces After Completion of School-Based Capital Projects



September 2019