



**REPORT TO:** Co-Chairs and Members of  
Public Health and Social Services Committee

**SUBJECT:** Wage Subsidy Equalization Process

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## **RECOMMENDATION**

That this Committee recommend to Regional Council that this report be received for information.

## **EXECUTIVE SUMMARY**

- The 2008 Provincial Wage Subsidy audit identified inequities in the distribution of wage subsidy allocations in Niagara and recommended wage subsidy allocations be based upon the current provincial formula and not on historically funded amounts
- Children's Services conducted a preliminary review of the current wage subsidy funding status which identified that 29 agencies were receiving an overpayment and 38 agencies were underfunded, representing a net shortfall of approximately \$400,000
- Children's Services developed a wage subsidy equalization process and conducted preliminary discussions with child care service providers
- As of July 1, 2009 Children's Services will begin to gradually address the wage subsidy funding inequities through a phased-in three year process in order not to destabilize child care service providers

## **FINANCIAL IMPLICATIONS**

The Province cost-shares the administration, management and funding of wage subsidies on an 80/20% basis with the exception of Best Start Wage Subsidy funding which is 100% funded by the Province. In 2008, Children's Services budget for the Wage Subsidy Program totaled \$6,662,690. The net shortfall for Children's Services to address the variance and provide funding equity based on the provincial formula has been identified as approximately \$400,000. In the event that provincial funding becomes available for wage subsidy funding, the Regional contribution of 20% will be identified as a future budget issue.

## **PURPOSE**

This report has been prepared to inform Committee and Council of the equalization strategy developed by Children's Services in order to address inequities in the redistribution of wage subsidy funding from overfunded to underfunded service providers.

## **BACKGROUND**

Children's Services inherited wage subsidy funding inequities at the time of the provincial downloading in 1998. In 2008 the Ministry of Children and Youth Services conducted a Children's Services Wage Subsidy Audit. The Audit identified inequities in the distribution of wage subsidy allocations in Niagara and recommended that wage subsidy allocations be based upon the current provincial formula, not on historically funded amounts. (COM 50-2008, September 16, 2008 – Wage Subsidy).

In June 2008 Children's Services conducted a preliminary review of the current wage subsidy funding status. Based on the 2007 Wage Subsidy Reconciliation report, 29 agencies were receiving an overpayment and 38 agencies were underpaid. The net shortfall for Children's Services to address the variance and provide funding equity based on the provincial formula was identified as approximately \$400,000.

Children's Services staff conducted a survey of neighbouring Consolidated Municipal Service Managers (CMSMs) who had experienced similar inequities in wage subsidy funding and compiled an analysis of information and recommendations to assist with the approach to equalize wage subsidy payments in Niagara. (*How Wage Subsidy Pressures are Mitigated – A Comparison with other CMSMs*).

Preliminary information regarding Children's Services developing an equitable wage subsidy re-allocation process was discussed during the 2008 budget negotiation process at Niagara Child Care Sector and meetings with Francophone and Aboriginal service providers. A Wage Subsidy status report was prepared for Committee and Council in September 2008, identifying the current inequity and informing of a strategy being developed.

## **REPORT**

July 1, 2009 Children's Services will begin to gradually address the wage subsidy funding inequities. However there are not enough funds to pay every service provider their 100% wage subsidy entitlement. The intent is to establish an equalization process in order for all eligible service providers to receive their eligible entitlement of wage subsidy. This will be done through a phased-in three year process in order not to destabilize service provider's financial viability that may potentially lead to a reduction in the number of child care spaces, reduction in the Early Childhood Educator workforce and possible closure of centres.

Discussions with individual service providers impacted by any re-allocation and potential impacts upon their organization are underway and will be completed in March 2009.

On July 1, 2009 the re-allocation process will be implemented where monthly cash flow reductions will be made to overpaid service providers and put towards increases to those being underpaid.

### Equalization Process

The following adjustments will occur unless additional wage subsidy funding is received from the Province:

- Effective July 1, 2009 reductions will be made over a three year period (25%, 35%, 40%) to child care programs receiving more than the maximum allocation
- The recovered funding will be used to begin the process of re-allocation to programs receiving less than an equitable share under the current formula. Every program that is receiving less than an equitable share will receive a portion of the funding now available

The following table is not reflective of Niagara's wage subsidy allocation of approximately \$5.5 million (including Best Start Wage Subsidy). It has been developed to provide an example of the phased-in re-allocation process which will bring equity to the over and underfunded service providers.

Example:

A higher percentage of agencies on the pressure list are already paid over 50% of their wage subsidy entitlement. Therefore in order to eliminate the surplus from agencies that are receiving over 100% of their entitlement, a recovery and re-distribution can be done to bring all agencies on the pressure list up to 80% of their calculated entitlement. This will require a three year re-distribution strategy to balance out the available surplus to be recovered and re-distributed, in order to stay within the budget allocation.

The three year plan is as follows:

- Year 1 - as of July 1, 2009, recover 1/2 (6mths) of 25% of the surplus from Agencies and re-distribute 25% to agencies under their 80% entitlement
- Year 2 - recover and redistribute 35%
- Year 3 - recover and redistribute 40%

In the end, agencies will be receiving a minimum of 80% of their entitlement and there will be no agencies receiving more than their calculated entitlement.

Child Care Agencies	Calculated Wage Subsidy	Current Wage Subsidy	Adjusted Wage Subsidy	Current % of Entitlement	New % of Entitlement	Funding Reductions	Funding Additions
A	250,000	0	200,000	0%	80%		200,000
B	100,000	25,000	80,000	25%	80%		55,000
C	95,000	53,200	76,000	56%	80%		22,800
D	85,000	48,450	68,000	57%	80%		19,550
E	125,000	73,750	100,000	59%	80%		26,250
B	95,000	57,950	76,000	61%	80%		18,050
B	197,000	128,050	157,600	65%	80%		29,550
B	110,000	73,700	88,000	67%	80%		14,300
F	300,000	225,000	240,000	75%	80%		15,000
G	110,000	95,700	95,700	87%	87%		0
H	125,000	116,250	116,250	93%	93%		0
I	120,000	126,000	120,000	105%	100%	(6,000)	
J	200,000	212,000	200,000	106%	100%	(12,000)	
K	300,000	330,000	300,000	110%	100%	(30,000)	
L	400,000	460,000	400,000	115%	100%	(60,000)	
M	600,000	702,000	600,000	117%	100%	(102,000)	
N	100,000	120,000	100,000	120%	100%	(20,000)	
O	570,000	712,500	570,000	125%	100%	(142,500)	
P	100,000	128,000	100,000	128%	100%	(28,000)	
<b>Totals</b>		<b>3,687,550</b>	<b>3,687,550</b>			<b>(400,500)</b>	<b>400,500</b>

An updated table, which will detail individual service provider's equalization process, will be developed and discussed with individual service providers prior to implementation of the equalization process.

It is anticipated that with annual expansion in the licensed child care sector (without Children's Services involvement in the planned growth or expansion) the wage subsidy pressure list would continue to grow. Without a commitment from the Province for additional Wage Subsidy funding or annualized Best Start Wage Subsidy/Wage Improvement funding beyond 2010 a further significant funding pressure will occur in the licensed child care sector that would destabilize the child care system.

It is recognized that a move towards a more equitable allocation of wage subsidy may create potential hardships for some programs. It is anticipated that implementing the plan over a three year period will alleviate the majority of the concerns. However, recognizing that stability is key to the maintenance of a quality child care system, Children's Services will implement an appeal process.

For situations not captured and addressed through the contract process or for unanticipated situations that would impact agreed upon wage subsidy reductions, the submission of a Business Case to Children's Services demonstrating significant negative impacts upon the program, agencies may appeal their wage subsidy re-allocation. Such appeals must be accompanied by current financial statements and by a budget

submission demonstrating the hardship created by a change in the amount of wage subsidy being allocated.

The intent of this gradual equalization of wage subsidy is to allow time for child care operators to adjust to a change in funding. We know that the child care community will respect the rights of all staff to receive equitable compensation for the valuable work they do with the children in Niagara. (See Appendix I, Service Provider Risks/Sensitivities and Mitigation Strategies).

While the amount of ongoing wage subsidy funding is insufficient to address the wage subsidy shortfall in Niagara, the proposed model establishes a process for the phased-in equalization of wage subsidy allocations. Children's Services has reviewed the equalization process with the Ministry of Children and Youth Services program supervisor and has received full support for the implementation process. Discussions will continue with affected service providers as part of the annual budget negotiation process or as part of a strategy development process to mitigate potential financial hardship for service providers.

Submitted by:

Approved by:

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Commissioner, Community Services

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Appendix I - Service Provider Risks/Sensitivities and Mitigation Strategies

**Service Provider Risks/Sensitivities and Mitigation Strategies**

<b>Risk/Sensitivities</b>	<b>Mitigation Strategies</b>
<ul style="list-style-type: none"> <li>• Financial hardship for service provider.</li> <li>• Non compliance with annual recoveries of 25,35,40%</li> </ul>	<ul style="list-style-type: none"> <li>• Consider flexible recovery ratios (10, 40, 50%)</li> <li>• Work with individual service providers to find their own strategies to address recoveries</li> <li>• Extend recoveries beyond three years</li> </ul>
<ul style="list-style-type: none"> <li>• Expansion of child care spaces based upon meeting Provincial licensing requirements not based upon planned geographic growth in collaboration with the system manager (CMSM).</li> </ul>	<ul style="list-style-type: none"> <li>• Expansion is consistent with planned growth as identified by CMSM not through provincial licensing process</li> <li>• Business Case submitted by service provider identifies need for specific categories of care (e.g. infant care)</li> </ul>
<ul style="list-style-type: none"> <li>• Underpaid service providers will not attain 100% wage subsidy allocation due to identified funding shortfall and continue to be maintained on the pressure list</li> <li>• Wage subsidy pressure list is maintained and may continue to grow</li> </ul>	<ul style="list-style-type: none"> <li>• Wage subsidy allocation process and practice to allocate additional subsidy dollars to underpaid service providers are in place</li> <li>• Additional wage subsidy funding will be applied to address wage subsidy shortfall</li> </ul>
<ul style="list-style-type: none"> <li>• Wage subsidy allocations continually changing based on service providers circumstances</li> </ul>	<ul style="list-style-type: none"> <li>• 2008 will establish the baseline</li> <li>• Allocations will be updated annually until inequity resolved</li> <li>• Will maintain variance list as changes in licensing capacities are reported</li> <li>• Moving towards monthly allocation adjustments</li> </ul>
<ul style="list-style-type: none"> <li>• Discontinuation of approximately \$1 M Best Start Wage Subsidy/Wage Improvement funding beyond 2010 for expansion of child care spaces in Niagara</li> </ul>	<ul style="list-style-type: none"> <li>• Without a commitment for annualized funding a further significant funding pressure will occur in the licensed child care sector that would destabilize the child care system and lead to closure of centres in Niagara</li> </ul>
<ul style="list-style-type: none"> <li>• Impact upon staff salaries as a result of increases/decreases in wage subsidy funding</li> </ul>	<ul style="list-style-type: none"> <li>• A salary information survey has been developed which will enable Children's Services to track and compare year over year staff salary information and identify changes as a result of the equalization process</li> </ul>