1. Background

Like most organizations throughout the world, the COVID-19 pandemic has led to unprecedented pressure on the Region of Waterloo.

Transit revenue has been impacted, the cost of service provision continues to rise and the need for strong, supportive municipal leadership is more important now than ever.

In providing leadership to our 600,000 residents, the Region has been working on a plan for our community beyond COVID-19 and this plan begins with the 2021 budget.

We are focusing on a plan that embraces all community members while reflecting the acute challenges presented by the pandemic. Our plan also places high importance on supporting the most vulnerable in Waterloo Region.

And we are committed to advancing with this plan while continuing to provide the highest of quality services in critical areas such as clean water, public health, housing, transit, social services and paramedic services.

With all of this in mind, the Region is paying specific attention to:

- Ongoing management of COVID-19 and provision of strategic support – directly and through our community partners – to our most vulnerable businesses and our impacted workforce
- Supporting our most vulnerable through additional investments in affordable housing.
- Addressing inequities in our community through additional investments to support BIPOC communities, as well as a stronger focus on addressing the Calls to Action in the Truth and Reconciliation Commission of Canada.
Modernizing and streamlining of service provision at the Region of Waterloo, including investment in technology that result in enhanced service for residents as well as financial savings.

Because of the once-in-a-generation financial pressures brought about by the pandemic, the 2021 budget has presented many challenges.

Staff have reviewed 19 opportunities for savings and to date, six of these are being recommended for Budget Committee consideration later in November.

2. Recommendation:

That the Region of Waterloo take the following action with respect to the 2019 KPMG Service Review outcomes:

   a) That with respect to the Museum Services, Facilities Management Services, Multimedia Services, and Specialized Public Transit, that staff be directed to prepare the 2021 service plan and operating budget to reflect the proposed budget adjustments set out in this report and refer these adjustments to Budget Committee.

   b) That with respect to the closure of the five Regionally operated child care centres, that a decision be deferred to a public meeting to be held on November 18 at 6:00 pm and subsequent special Council meeting to be held on December 2 at 6:00 pm.

3. Purpose / Issue:

The purpose of this report is to recommend actions relating to certain outcomes of the Service Review completed by KPMG in 2019 in the context of the 2021 plan and budget.

4. Key Considerations:
   a) The Region of Waterloo is projecting close to a $25 million gap between expenditures and revenues for 2021.

   b) COVID-19 continues to impact the Region and its operations, residents and businesses.

   c) Through report COR-FSD-20-27 dated September 23, 2020 Regional Council directed staff to prepare a 2021 plan and associated budget that includes preparing the preliminary 2021 Tax Supported and User Rate Operating Budgets.
with a property tax and user rate impact of 0% inclusive of Police Services, with options for a total property tax impact up to the rate of projected 2021 inflation.

d) Staff were requested to prepare a 2021 plan and budget based on the following directional commitments identified by Council:

- Staff will prepare a 2021 plan and budget built around Council’s priorities established in September.
- Staff will shift people and financial resources to the areas of highest priority.
- Staff will explore innovative solutions and efficiencies.
- KPMG Service review: Non-mandated services and services for which we spend at a higher level than our comparators will be assessed to identify alignment with our strategic priorities, cost savings and efficiencies. All KPMG recommendations will be implemented (i.e. dealt with in some form) by December 2020.

e) KPMG’s Service Review 2019 identified 19 opportunities plus a review of discretionary grants to other organizations for Regional Council’s consideration which involved services that were either discretionary, involved a comparatively higher cost of service delivery, or represented proportionally significant expenditure. Of the 19 opportunities, nine were deemed to have no immediate savings or require no further current action, five are still under review, and five have concluded and identify actions for further budget savings.

The following is a brief overview of each of the six opportunities requiring further actions, including 2021 budget savings.

i) Child Care Operations – Child Care Centres

This review assessed the need for and the number of directly operated Child Care Centres. An external consultant (KPMG) conducted the review under the guidance of a project Steering Committee that included a number of regional councillors and a representative from the child care community. The Children’s Centres Review final report and Steering Committee recommendations were presented to the 2019 Service Review Steering Committee on October 27, 2020.

The Children’s Centres Review Steering Committee recommends the closure of Regionally-operated Child Care Centres for several reasons. The external consultant, consistent with prior reviews, concluded that the current model produces a number of inefficiencies and unnecessarily high costs. This is particularly true in the face of significant financial challenges arising as a result of the COVID-19 pandemic. Discontinuing the provision of direct care would allow the Region to fund key priorities in the local early learning and child care system and to re-focus on its role as a
service system manager (versus direct service provider).

Key priorities for further investment in early learning and child care in Waterloo Region include:

- Improve affordability of child care, through additional child care fee subsidies and/or widespread fee reductions;
- Support the sustainability of existing child care programs through new funding that responds to current system challenges;
- Increase the quality of child care programs, through new quality enhancement supports and quality measurement; and
- Increase equity of access to early learning and child care programs for all children, including those most vulnerable, through new policies and focused funding initiatives.

Discontinuing direct provision of child care services allows the Region to save $6.8M in annual operating costs ($678K in net levy operating impact and $294K in annual tax supported reserve contributions). Staff propose a closure of four of the centres in mid-2021 and one centre (Elmira) at a future date.

The Steering Committee directed staff to create a detailed implementation plan and a comprehensive communication plan in advance of Council approval including a plan for communication with affected families and staff. This action will impact up to 62 FTE positions working within the Region’s directly operated Children’s Centres.

ii) Museum Services

This staff-led review re-evaluated the business model for Museum Services. The review concluded in July 2020 and given the nature of the changes, implementation is currently underway. Major changes include adjustments to staff schedules, alignment of service hours to customer demand and program changes focusing on return on investment. Estimated savings of $532,000 have been incorporated into the 2021 preliminary budget.

iii) Facilities Management Services (including Waterloo Region Housing)

Facilities Management, in consultation with Corporate Performance and Human Resources has identified efficiency and savings opportunities within the Division. Implementation will be focused on optimizing the use of contracted and in-house services as well as improving the efficiency and effectiveness of internal operations. Examples include optimizing staff dispatching and bundling of service contracts.
Staff have also considered more significant changes to the Facilities Management Business model such as selling off existing buildings and contracting out all facilities management services. These approaches have long timelines for implementation and inconclusive evidence of savings potential based on the experience of other municipalities and levels of government.

Savings are estimated to be $757,000 in the preliminary 2021 budget. Further savings are anticipated for 2022, and may include reduction and/or repurposing of staff positions.

iv) Specialized Public Transit – MobilityPLUS Operations

A consultant was engaged to complete a review of MobilityPLUS Operations which will be submitted to Committee on December 8, 2020. Certain recommendations that do not impact customers or are necessary for AODA compliance will be implemented immediately. For recommendations that may impact customers, further public consultation will be undertaken in 2021 where appropriate. Approximately 40 short, medium and long-term recommendations focus on eligibility and registration, customer service, operations, scheduling and service planning, delivery model and organizational design and communication.

The potential changes in policies, booking and service could result in savings as noted in the KPMG review. These changes would largely result in MobilityPLUS services being provided more efficiently and would result in reducing hours of service while maintaining the current number of rides. These actions will not, however, address the issue of unfilled rides. With the proposed change in approach, some riders may perceive a loss of service while others may perceive a gain and therefore, further public consultation is required. Estimated savings of $280,000 have been incorporated into the preliminary 2021 budget.

v) Multimedia Services– Graphic Design/Multimedia, Video, Printing

The purpose of the review was to assess the Region's service delivery model (centralized vs decentralize operations, insource vs. outsourcing, or any combination) to further enhance operational efficiencies and effectiveness in delivering multimedia services while still meeting diverse organizational needs. This review included all program areas that require multimedia services including public transit and waste management. The final analysis and recommendations are complete and significant changes include centralization of Multimedia services into a single group, insourcing of work to existing staff at a lower cost, and removal of a vacant position. Financial savings are estimated to be approximately $125,000, with a reduction of 1 vacant position.
vi) Discretionary Grants to Organizations

The KPMG service final report included a listing of discretionary grants for Council’s consideration. Staff are reviewing the Region’s funding support to community groups and external organizations and will report back through the 2021 budget process.

5. Service Review Background:

The KPMG’s Service Review 2019 Report identified nineteen opportunities plus a review of discretionary grants to other organizations for Regional Council’s consideration which involved services that were either discretionary, involved a comparatively higher cost of service delivery, or represented proportionally significant expenditure.

On May 26, 2020, Regional Council endorsed recommended actions for nineteen budget saving opportunities and a review of discretionary grants to other organizations, as outlined in Report HRC-ADM-20-03 (Progress Update on Action Items). Staff have organized service review outcomes into four separate categories:

- Service Review Opportunities - No Actions to Take Place (opportunities where previous Council direction to staff was to take no action).
- Service Review Opportunities - No Savings Achieved (opportunities where staff have reviewed the opportunities but no savings were achieved).
- Service Review Opportunities - Still in Progress (opportunities where the review is still in progress).
- Service Review Opportunities with Actions and Budget Savings (opportunities where the review has been completed and there are associated actions and/or budget savings).

Details of the opportunities in each category above, along with the service review updates and outcomes, can be found in Appendix A (Service Review Outcomes – Update).

6. Area Municipality Communication and Public/Stakeholder Engagement:

Nil.

7. Strategic Plan:

This Service Review supports Focus Area 5, Responsive and Engaging Public Service, of the 2019-2023 Corporate Strategic Plan, ensuring organizational processes, facilities and resources will be reliable, cost-efficient and effective, and will provide excellent value to the community.
8. **Financial Implications:**

The following table outlines estimated budget impacts of implementing recommended actions for the six opportunities as outlined in this report. These impacts have been incorporated into the preliminary 2021 budget for Budget Committee's consideration.

<table>
<thead>
<tr>
<th>Service Opportunity Title</th>
<th>2021 Estimated Budget Impact</th>
<th>2022/2023 Estimated Budget Impact</th>
<th>FTE Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child Care Operations – Child Care Centres</td>
<td>$544,000 (Note 1)</td>
<td>328,000</td>
<td>47.8 FTE (2021) 14.8 FTE (2022/23)</td>
</tr>
<tr>
<td>Museum Services</td>
<td>$532,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilities Management Services including Waterloo Regional Housing – Maintenance &amp; Asset Management</td>
<td>$757,000</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>Multimedia Services— Graphic Design/Multimedia, Video, Printing</td>
<td>$125,000</td>
<td></td>
<td>1 FTE</td>
</tr>
<tr>
<td>Specialized Public Transit – MobilityPLUS Operations</td>
<td>$280,000</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>Total</td>
<td>$2,238,000</td>
<td>TBD</td>
<td>TBD</td>
</tr>
</tbody>
</table>

Note 1 – gross expenditure reduction of $6.8M; avoided capital costs include $615,000 annually for asset renewal and minor program capital as well as $6M for the redevelopment of the Edith McIntosh facility

9. **Conclusion / Next Steps:**

A special Committee meeting has been scheduled for November 18 for further consideration of this report and to hear from delegations. Subject to Council approval at the special council meeting on December 2, staff will:

- Commence implementation leading to a closure of four centres in mid-2021.
- Put in place the actions to implement the other five outcomes described in this report.
- Reflect budget adjustments in the preliminary 2021 budget which will be considered by Budget Committee over the next several weeks.

**Attachments/ Links:**

Appendix A - **Service Review Outcomes – Update**
Appendix B - Addendum to Report: HRC-PER-20-02 (3461910)

Attachment - KPMG Consultant Report - Child Care Operations – Child Care Centres (3457902)

Prepared By: David Young, Corporate Performance Audit Specialist

Amber Sare, Manager, Office of Corporate Performance

Approved By: Jane Albright, Commissioner, Human Resources and Citizen Service

Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer
## Appendix A - Service Review Outcomes – Update

### Service Review Opportunities - No Actions to Take Place

<table>
<thead>
<tr>
<th>Opportunity Title</th>
<th>Opportunity Description</th>
<th>Council Approved Direction January 2020 (Report HRC-ADM-01)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immigration Partnership</td>
<td>Evaluate the need and service delivery approach for Immigration Partnership services</td>
<td>Continue with the current approach and funding for the Immigration Partnership.</td>
</tr>
<tr>
<td>Discretionary Benefits</td>
<td>Reduce or eliminate the Region’s contribution to Discretionary Benefits</td>
<td>Continue with current levels of Regional funding for discretionary benefits.</td>
</tr>
<tr>
<td>Waterloo Regional Housing – Community Development</td>
<td>Review the service delivery approach to providing Community Development Services</td>
<td>Continue current levels of funding for this program.</td>
</tr>
<tr>
<td>Emergency Medical Response – Public Access Defibrillators</td>
<td>Devolve Public Access Defibrillators to non-profit organizations</td>
<td>Continue current levels of funding and support for this program.</td>
</tr>
<tr>
<td>Financial Assistance Case Management – Client Intake &amp; Financial Assistance Eligibility</td>
<td>Conduct a process review on Client Intake and Financial Assistance Eligibility Services</td>
<td>Continue with current funding and delivery of this program, pending the outcome of Provincial reviews.</td>
</tr>
<tr>
<td>Child Care Management – Funding Administration</td>
<td>Review the funding model for Child Care Management Funding Administration Services</td>
<td>Continue with current funding and delivery of this program, pending the outcome of Provincial reviews.</td>
</tr>
<tr>
<td>Financial Management – Property Tax Rebates</td>
<td>Review the provision of charity tax rebates to non-mandated organizations</td>
<td>Continue with current policy and funding as per direction from Steering Committee (October 27 2020)</td>
</tr>
</tbody>
</table>
## Service Review Opportunities - No Savings Achieved As of November 2020

<table>
<thead>
<tr>
<th>Service Opportunity Title</th>
<th>Opportunity Description</th>
<th>Project Update and Key Milestones</th>
</tr>
</thead>
</table>
| **Waterloo Crime Prevention Council (WRCPC)** | Evaluate the need and service delivery approach for Crime Prevention Council services | Current status: The design team, which consists of members of Waterloo Wellbeing and WR Crime Prevention Council, met at the end of September and determined that there is strong interest in a broader vision that encompasses the mandate of both organizations. There is currently a collaborative effort underway to map the common partners involved in Waterloo Wellbeing, WR Crime Prevention, Immigration Partnership and Children and Youth Planning Table. Significant milestones and target dates:  
- October - Holding 2 meetings to develop a common vision. Engaging a communications specialist to help clearly articulate the vision.  
- November - Presenting the common vision to Connectors Hub (Waterloo Wellbeing ) and Crime Prevention Council for input and endorsement.  
- December – Presenting common vision to Chair Redman/ CAO for feedback  
- January- February – Engaging key stakeholders to ensure support for the vision.  
- March – Presenting to Regional Council for approval along with a proposed implementation plan. |
| **Social Development Services** | Review the need for and service delivery approach for Social Development Services | Current status: The review of the Social Development Programs was completed on October 1, 2020. Recommendations have been presented to the Departmental Leadership team. Significant milestones and target dates: Draft report is complete. The Review identified that all three Social Development Programs are providing cost-effective and efficient services that work “upstream” to support individuals and families who live in low income. This was demonstrated during COVID when each of these services continued to be delivered and, in fact, responded in very flexible ways to ensure that the needs of vulnerable individuals and families are met. Unless Council decides differently, we see no cost savings to be achieved given that these services are provided by agencies in the community. A key finding (not new) is that because the funding amounts do not change year over year each agency is actually doing more with less on an ongoing basis. Community Services is not recommending any significant changes to program delivery or funding. They are well managed and evaluated and demonstrate that they are achieving the outcomes they are intended to achieve. |
## Service Review Opportunities - Still in Progress

<table>
<thead>
<tr>
<th>Service Opportunity Title</th>
<th>Opportunity Description</th>
<th>Project Update / Key Milestones / Financial and FTE Implications (if applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region of Waterloo International Airport – Air Service &amp; Business Development</td>
<td>Re-evaluate the business practices at the Region of Waterloo International Airport for greater operational efficiency and effectiveness and revenue generation.</td>
<td>Current status: The Office of Corporate Performance is currently leading a review of airport operations for efficiencies. Significant milestones and target dates: Formal recommendations and a draft action plan is expected to be presented by early December.</td>
</tr>
</tbody>
</table>
| Housing & Homelessness System Management                                                   | Conduct a process review regarding the administration of Housing and Homelessness System Management Services.                                                                                                           | Significant milestones and target dates: Formal recommendations and a draft action plan are expected by December:  
  - Accelerate work already in progress to revise the back end policy, processes, and technology that support the application and waitlist management for access to community housing.  
  - Pursue merger of current non-union positions to unionized positions                                           |
| Library Services                                                                           | Evaluate alternative service delivery approaches for Library Services.                                                                                                                                                   | Significant milestones and target dates:  
  - October 22: Joint Township Council Meeting presented interim report, current state and next steps  
  - December 2020: Final Report  
Significant Changes could include governance, oversight and delivery of the library service based on recommendations of the most efficient and cost-effective model. |
| Fleet Management                                                                           | Conduct Regional Fleet Utilization Study.                                                                                                                                                                                 | Current status: A report was presented to CLT September 30th regarding findings and potential savings opportunities. Significant milestones and target dates:  
Fleet Management has reviewed all low utilization vehicles in the organization and identified a number of opportunities both within program areas as well as across Division and Department boundaries. Staff are currently reviewing those opportunities with program areas to determine potential operational impacts. Examples include sharing landscaping equipment between program areas to reduce the overall equipment needs and considering opportunities for alternate service delivery models that would require fewer vehicles or equipment. The 2021 opportunities represent potential capital savings of $2.6M to $3.4M, annual reserve contribution savings of $209K to $270K and annual operating cost savings of $180K to $242K, some of which would be offset by costs for alternate modes of service delivery within specific program areas. |
| Discretionary grants to other organizations                                                 | The Region provides funding support to community groups or external organizations.                                                                                                                                       | Current status: Inventory of Grants has been created; being reviewed with related program staff as part of 2021 budget development meetings.                                                                 |
## Service Review Opportunities with Actions and Budget Savings

<table>
<thead>
<tr>
<th>Service Opportunity Title</th>
<th>Opportunity Description</th>
<th>Project Update / Key Milestones / Financial and FTE Implications (if applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Child Care Operations – Child Care Centres</strong></td>
<td>Review the need for and the number of directly operated Child Care Centres</td>
<td>Current status: KPMG’s review is complete. Significant milestones and target dates: Children’s Centres Review final report and Steering Committee recommendations went to the 2019 Service Review Steering Committee on October 27, 2020. The Steering Committee supports Option 4 - to close all 5 Region operated Children’s centres. This allows the Region to save $6.8M ($678K levy impact) in annual operating costs and to avoid $615K in annual capital expenses. Remaining Ministry of Education funding will be invested into increased quality of care within the system and provide incentives for service providers. The Steering Committee directed staff to create a detailed implementation plan and a comprehensive communication plan to move forward should Council Approve. This will impact 62 positions working within the Children’s Centres.</td>
</tr>
<tr>
<td><strong>Museum Services</strong></td>
<td>Re-evaluate the business model for Museums Services</td>
<td>Current status: The Museum Review was completed in July Significant milestones and target dates: Implementation is currently underway. Major changes include: - adjustments to staff schedule - alignment of service hours to customer demand - program changes focusing on return on investment Estimated savings of $532,000 are expected.</td>
</tr>
<tr>
<td><strong>Waterloo Regional Housing – Maintenance &amp; Asset Management</strong></td>
<td>Explore the Region's service delivery model (in-house, outsourcing or a mix) to further enhance operational efficiencies in the maintenance of Waterloo Regional Housing Assets</td>
<td>Current status: Facilities Management, in consultation with Corporate Performance and Human Resources has conducted a review of efficiency and savings opportunities within the Division. Significant milestones and target dates: Facilities Management, in consultation with Corporate Performance and Human Resources has identified efficiency and savings opportunities within the Division. Implementation will be focused on optimizing the use of contracted and in-house services as well as improving the efficiency and effectiveness of internal operations. Examples include optimizing staff dispatching and bundling of service contracts.</td>
</tr>
<tr>
<td><strong>Facilities Management Services</strong></td>
<td>Explore the Region's service delivery model (in-house, outsourcing or a mix) to further enhance operational efficiencies in the maintenance and management of Regional buildings and properties</td>
<td>Current status: Facilities Management, in consultation with Corporate Performance and Human Resources has conducted a review of efficiency and savings opportunities within the Division. Significant milestones and target dates: Facilities Management, in consultation with Corporate Performance and Human Resources has identified efficiency and savings opportunities within the Division. Implementation will be focused on optimizing the use of contracted and in-house services as well as improving the efficiency and effectiveness of internal operations. Examples include optimizing staff dispatching and bundling of service contracts. Staff have also considered more significant changes to the Facilities Management Business model such as selling off existing buildings and contracting out all facilities management services. These approaches have long timelines for implementation and inconclusive evidence of savings potential based on the experience of other municipalities and levels of government.</td>
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<tr>
<td>Service Opportunity Title</td>
<td>Opportunity Description</td>
<td>Project Update / Key Milestones / Financial and FTE Implications (if applicable)</td>
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<td>---------------------------</td>
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</tr>
<tr>
<td>Multimedia Services– Graphic Design/Multimedia, Video, Printing</td>
<td>Review the Region’s service delivery model (centralized vs decentralize operations, insource vs. outsourcing, or any combination) to further enhance operational efficiencies and effectiveness in delivering multimedia services while still meeting the diverse organizational needs. This review will include all program areas that provide multimedia services including GRT and Waste Management.</td>
<td>2021 Savings are estimated to be $757,000. Further savings are expected for 2022 which may include reduction and/or repurposing of FTE’s. Current status: The final analysis and recommendations are complete. Significant milestones and target dates: The final review has been completed. Significant changes include:  - Centralization of Multimedia services into a single group  - Avoid filling a currently vacant position  - Insourcing of work to existing staff at a lower cost Financial savings are estimated at approximately: $125,000 which includes a reduction of 1 FTEs.</td>
</tr>
<tr>
<td>Specialized Public Transit – MobilityPLUS Operations</td>
<td>Review MobilityPLUS Operations</td>
<td>Current status: MobilityPLUS Service Review consultant report complete. Significant milestones and target dates: Staff is implementing some internal facing and AODA compliance recommendations immediately. Many of the recommendations will impact customers and public consultation on those is recommended. Approximately 40 short, medium and long term recommendations focus on the following areas:  - Eligibility and Registration  - Customer Service  - Operations  - Scheduling and Service Planning  - Delivery Model  - Organizational Design and Communication The potential changes in policies, booking and service could result in savings as noted in the KPMG review. These changes would largely result in MobilityPLUS services being provided more efficiently. This would result in being able to reduce hours of service while maintaining the number of rides. This does not address the issue of the backlog or unfilled rides. Riders would be impacted unevenly (some feeling they have lost under the new approach while others have gained) which is why consultation is important. An alternative approach would be to maintain funding/resource levels but increase the number of available rides to address unfulfilled demand. Input from this Committee and Council is required on service level. COVID has also been impacting MobilityPLUS. The demand for service is reduced and drivers have been</td>
</tr>
</tbody>
</table>

COVID has also been impacting MobilityPLUS. The demand for service is reduced and drivers have been...
<table>
<thead>
<tr>
<th>Service Opportunity Title</th>
<th>Opportunity Description</th>
<th>Project Update / Key Milestones / Financial and FTE Implications (if applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>reassigned to bus cleaning. If there were changes to MobilityPLUS service it would still be necessary to clean the conventional buses. 2021 budget estimated savings $280,000. Pending the decision on service (above) further savings would be implemented in 2022.</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B

Addendum to Report: HRC-PER-20-02
Region of Waterloo Service Review 2019 Implementation
November 17, 2020

Child Care Operations – Child Care Centres

2019 Service Review Context

The Region of Waterloo regularly looks for opportunities to maximize the value of every taxpayer dollar to ensure services are achieving the highest value for money. The Region examines the services we provide to all 600,000 residents from a variety of perspectives including equity, sustainability, quality and affordability.

Several opportunities for improvement were identified in the 2019 KPMG Service Review, and while some provide savings, others provide opportunity for reinvestment and additional services. The Service Review opportunities highlight where the Region has no legislative requirement to provide a service, or where the Region's cost to provide a service is greater than comparator municipalities or other Service Providers, either because of service level policy decisions or because of the efficiency of service delivery.

Through various recommended actions arising from the Service Review, Council is considering redirecting and reallocating taxpayers dollars that were not being used in a cost effective manner to improve the “value for money” of Regional services, and investing to care for the most vulnerable residents and businesses in our community.

The Child Care System in Waterloo Region

The Region of Waterloo recognizes the vital importance of quality licensed child care in our community, particularly at this time, the role it plays in to the recovery of the local economy and to healthy child development in our community. Child care plays a particularly important role to workforce participation of parents, especially mothers. The impact of high quality child care on children's outcomes is especially important for vulnerable children.

The Region of Waterloo, as service manager for licensed early learning and child care, oversees the provision of approximately 14,000 child care spaces through licensed centre and home child care programs. This service is provided by 67 different child care
operators. The Region of Waterloo directly operates five centres, however, the Region is not mandated to provide this service.

COVID-19 has created significant challenges, such as lower enrolment and increased costs, for child care providers across Waterloo Region. These challenges are impacting the sustainability of some child care programs and additional funding, beyond currently committed federal and provincial funding, is now required to maintain child care spaces. Approximately 2,000 licensed child care spaces for children ages zero to four years are currently vacant.

**Children’s Centres Review Findings**

Following an external review by KPMG, it has been confirmed that the Region invests proportionately much more heavily in the 200 spaces directly operated by the Region of Waterloo Children’s Centres than in the 13,800 other licensed child care spaces.

The Region’s five Children’s Centres provide 1.9% of child care spaces in Waterloo Region for 10.2% of the Children’s Service budget. This significant investment has created an inequitable funding situation, which impacts the whole child care system. Given the current pandemic context, the significant funding commitment to the Region’s Children’s Centres will also decrease flexibility to address the sustainability challenges other child care programs are facing.

KPMG has indicated that for the same amount of funding that the Region allocates to operate 200 of its own child care spaces, the Region could support an additional 350 to 791 licensed spaces operated by community programs.

**Priorities for Funding Reallocation**

To protect the child care system, and to ensure a more equitable and affordable system, particularly for families who are vulnerable, the Children’s Centres Review Steering Committee identified that some difficult but prudent decisions needed to be made.

The Steering Committee recommends the closure of the five Regionally-operated Child Care Centres (HRC-PER-20-02). The primary objective of this recommendation is to reallocate the almost $4.3 million in Provincial funding currently allocated to the Region’s Children’s Centres to priorities across the broader child care system.

By closing the 200 centre-based spaces that the Region owns and operates (ensuring that the children currently served there are offered alternative placements that meet their needs), approximately $4.3 million in Provincial funding can be redirected to support the entire system more equitably. The Region recognizes that a focus on
service system management and the resulting redistribution of provincial funding will bring significant benefits for the entire early learning and child care system:

- Improving the affordability of child care, through additional child care fee subsidies and/or widespread fee reductions
- Supporting the sustainability of existing child care programs through new funding that responds to current system challenges
- Increasing the quality of child care programs, through new quality enhancement supports and quality measurement
- Increasing equity of access to early learning and child care programs for Waterloo Region’s most vulnerable children, through new policies and focused funding initiatives. One of the first steps in increasing equity within the system will be to engage with families who are Black, Indigenous, and People of Colour to explore their child care needs to identify current system barriers.

In addition to the $4.3 million in the Provincial funding that will be redistributed, there will also be annual savings of approximately $678,000 from the tax levy and $294,000 from tax supported reserve contributions. Regional Council will make the final decision on the potential closure of the five Regionally-operated Child Care Centres. If Regional Council approves the recommendation to close the Regional child care centre operations and shift $4.3 million in Provincial resources to the rest of the child care system, Council will have the opportunity to determine priorities for these tax levy savings.

**Implementation Planning**

If the recommendation in HRC-PER-20-02 is approved, staff will create a detailed implementation plan. Staff will continue to provide support and frequent communication with affected families and staff (up to 62 FTE positions) throughout the transition period. Staff is committed to ensuring that the children currently served by the Children’s Centres are offered alternative placements that meet their needs. Currently, 152 of the 207 Regional operated child care spaces are occupied. Of those occupied spaces, 79 children will be of Junior Kindergarten age in the fall, and the remaining 72 will be supported to transition to community operated spaces. Approximately 2,000 licensed child care spaces for children zero to four years are currently vacant in Waterloo Region.

In addition to supporting affected families and staff, Children’s Services will develop a comprehensive funding redistribution plan. The funding redistribution plan will address the priorities identified above and the details will be based on significant engagement and will align with the local service system plan (currently under redevelopment).
Clarification of Financial Implications

The KPMG review confirmed that the current model of child care provision at the Region of Waterloo comes at a significant cost to taxpayers – in particular the Region’s five Children’s Centres provide 1.9% of child care spaces in Waterloo Region for 10.2% of the Children’s Services operating budget. If closure of the five centres is approved and funds redirected as recommended, the financial implications are as follows:

<table>
<thead>
<tr>
<th>Regionally Operated Child Care Centres - Budget Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Costs</strong></td>
</tr>
<tr>
<td>The cost to operate the centres (approx. $7m) would be removed from the Region’s budget</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
</tr>
<tr>
<td>Fees paid by parents ($2m) would be removed from the Region’s budget and parents would pay those fees to another child care program (up to 2,000 spaces for 0 to 4 year olds are currently vacant).</td>
</tr>
<tr>
<td>Provincial subsidy ($4.3 m) would be retained by the Region and redirected to the broader child care system in support of affordability, sustainability, quality and equity of approximately 13,800 spaces.</td>
</tr>
<tr>
<td>Regional property taxes ($1m including capital) would be redirected as determined by Council</td>
</tr>
</tbody>
</table>

Closure of the centres would also avoid approximately $12 million in capital investments over the next 10 years comprised of:

- Ongoing building renewal work and programming improvements at the 5 centres ($6m)
- Redevelopment of the Edith McIntosh Child Care Centre ($6m).
The Regional Municipality of Waterloo

Third Party Review of Children’s Centres

Service Delivery Options

November, 2020
Disclaimer

This report has been prepared by KPMG LLP ("KPMG") for the Region of Waterloo ("Client") pursuant to the terms of our Purchase Order with the Client dated May 12, 2020. KPMG neither warrants nor represents that the information contained in this report is accurate, complete, sufficient or appropriate for use by any person or entity other than Client or for any purpose other than set out in the Engagement Agreement. This report may not be relied upon by any person or entity other than Client, and KPMG hereby expressly disclaims any and all responsibility or liability to any person or entity other than Client in connection with their use of this report.

This report is based on information and documentation that was made available to KPMG at the date of this report. KPMG has not audited nor otherwise attempted to independently verify the information provided unless otherwise indicated. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and recommendations as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, the Region of Waterloo. KPMG has not and will not perform management functions or make management decisions for the Region of Waterloo.

This report may include or make reference to future oriented financial information. Readers are cautioned that since these financial projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypotheses occur, and the variations may be material.

Comments in this report are not intended, nor should they be interpreted, to be legal advice or opinion.

KPMG has no present or contemplated interest in the Region of Waterloo nor are we an insider or associate of the Region of Waterloo. Accordingly, we believe we are independent of the Region of Waterloo and are acting objectively.
Overview

Region of Waterloo
Third Party Review of Children’s Centres
Final Report
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Executive Summary

Region of Waterloo
Third Party Review of Children’s Centres
Final Report
Executive Summary

Project Overview

KPMG has been engaged by the Region of Waterloo (the “Region”) to conduct an in-depth program and financial review of the Region’s Children’s Centres. This review will support the Region’s strategic approach regarding the future direction of the Children’s Centres through information, analysis, commentary, recommendations and consideration of a range of options. This review will explore the need for and number of centres in Waterloo Region as a follow up action to the 2019 Service Review completed by KPMG. As part of the review, KPMG conducted the following analysis:

<table>
<thead>
<tr>
<th>Environmental Scan</th>
<th>Current State Analysis – System</th>
<th>Current State Analysis – Children’s Centres</th>
<th>Service Delivery Options</th>
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<tr>
<td>Stakeholder consultation and environmental scan of comparator municipalities that directly operate child care or have chosen to discontinue direct operations of licensed child care centres.</td>
<td>Current state analysis of the Region’s child care system, including the alignment of the Region’s CMSM role.</td>
<td>Current state analysis of the service delivery model of the Children’s Centres, including an overall service profile and specific analysis of each centre.</td>
<td>Development of five service delivery options and improvements, including commentary on the advantages and disadvantages for each option</td>
</tr>
</tbody>
</table>
Executive Summary

Options for Service Delivery

1. Refocus priorities of Children’s Centres

2. Initiate cost saving measures to increase the financial viability of the 5 centres.

3. Lease the centres to a community operator

4. Closure of one or more centres

5. Closure of one centre with re-deployment of staff
Executive Summary

Option 1: Primary Benefits, Risks and Challenges

Objective: Increase operating capacity to 100% and re-strategize enrollment priorities to serve more families requiring subsidy and children with Special Needs supports.

Benefits

Operating Capacity: The centres can operate at 100% capacity by offering an additional 50 spaces within the centres.

Waitlist: Children’s Services can reduce centre waitlists by 7% by increasing spaces to licensed capacity.

Subsidy for Low-Income Families: The Children’s Centres can serve more low-income families by re-focusing its enrollment strategy.

Special Needs: The Children’s Centres can serve more children requiring Special Needs supports by re-focusing its enrollment strategy.

Continued Operations: Option 1 allows the CMSM to continue providing directly operated child care to the Region of Waterloo.

Risks and Challenges

Additional Labour Costs: Increasing operating capacity would require Council to approve the hiring of additional RECEs; an estimated $418K net cost increase.

Community Impact: Requires additional collaboration efforts with community partners who already provide special needs and financial support services.

Lack of Data: The Region will need to collect and analyze demographics, attendance, subsidy and special needs data. Many of these data points are not currently tracked.

Parental Concerns: The Region will need to address concerns from families already on the waitlist regarding changes to the enrollment criteria.

Occupancy Targets: Increasing operations and changing enrollment priorities may have a negative impact on the vacancy loss percentages.
Executive Summary

Option 2: Primary Benefits, Risks and Challenges

Objective: Initiate up to six (6) cost saving measures to increase the financial viability of the 5 centres.

Benefits
Cost Savings and Avoidance: The Region can save between $41K and $1.5 million per year by implementing one more cost-saving measures, plus a one-time amount of $470K in playground construction.

Continued Operations: The Region can continue its involvement in directly operated child care with these cost-saving measures.

Quality: The Region can continue to offer quality child care by offering high salaries, the High Scope program, professional training, fresh meals, and improvements to rooms and activity spaces.

Adaptability: Cost saving measures will still allow the Region to respond quickly to emerging needs and situations.

Special Needs and at-Risk Families: The region can continue to serve at-risk families and children requiring Special Needs supports, and proving staff and resources to help them flourish.

Risks and Challenges
Layoffs: Increasing pre-school enrollment requires the elimination of half the RECE positions which will cause labour relations issues and attract negative media attention.

Community Need: Increasing pre-school enrollment, while generating cost-savings, strains the CMSM’s objectives by ignoring child care needs for infants and toddlers in the Region.

Financial Difficulty: Salary cuts will be emotionally/financially straining for staff and some may seek employment elsewhere. The Region may experience a slight increase in staff turnover.

Subsidy for Low-Income Families: Increasing parent fees will limit access for lower-income families to municipal child care if they cannot receive a subsidy.

Meals: Eliminating the Cook position and expenditures on meals may reduce the quality of meals provided at the centres.
Objective: Provide child care services through an alternative service delivery model. The Region retains ownership of the Children Centre facilities, but operation is transferred to a community operator.

Benefits
Cost Savings and Avoidance: The Region can save $1.3M per year in operational costs and avoid annual costs of $350k per year in capital costs.

Staff Retention: The Region can retain 100% of staff by leasing the centres to other operators. All staff would take employment with the new operator.

Minimal Disruption: There would be minimal disruption to the families of children currently attending the centres through a leasing arrangement.

Conflict of Interest: The Region can eliminate the conflict of interest perception within the community. Other operators noted the inequitable investment in municipal child care relative to their own centres.

Risks and Challenges
Affordability, Accessibility & Quality: Transferring operations of the centres may negatively impact affordability, accessibility and inclusion, and quality. The Region will need to address the concerns of staff and families with due care.

Staff Succession Rights: Transferring operations would require the operator to take on current Children’s Centre staff. The operator will not be able to afford the Region’s compensation levels.

Ongoing Subsidized Support: The Region may need to subsidize new operators up to $2.4M per year in order to help them afford the salaries of current centre staff.

Fees for Low-Income Families: The community operator may increase parent fees which will marginalize lower-income families from accessing child care if they cannot receive a subsidy.

Viability: There is a possibility that no operators would be interested in leasing one/all of the centres. The Region might have to provide incentives to motivate community operators.
Objective: Close one or more of the Regions directly operated child care centres to achieve cost savings and cost avoidance.

Benefits

Cost Savings and Avoidance: The Region can save $7.1M per year in operating costs by closing all 5 centres; avoid paying $615K per year in capital costs; and avoid a $6M re-development cost.

Re-investment: The Region can free up $4.4M per year in Provincial Funding for re-investment into the child care sector; and $678K in levy funding for re-prioritization.

Community Spaces: The Region can provide funding (e.g., fee subsidy, operating funding) to support between 350 and 791 licensed spaces in community programs (depending on a number of factors).

Sale of Buildings: The Region can realize additional revenues by selling the buildings located at the Christopher, Cambridge, Edith MacIntosh and Kinsmen locations.

System-Building & Collaboration: The Region can eliminate the conflict of interest perception within the community. Other operators noted the inequitable investment in municipal child care relative to their own centres.

Risks and Challenges

Loss in Quality: Divesture will result in the loss of high quality spaces (e.g., due to High Scope program, professional training, etc.), and will decrease the RECE wage benchmark.

Reputational Risk: Closing one or more centres will cause a reaction from parents and invite negative media coverage. There is a risk of reputational damage for the Region.

Special Needs: Some children requiring Special Needs supports may not find spaces in the community, according to interviews with former operators.

Staffing Risk: Regional employees filling 62 FTEs will be laid off by closing all of the centres. Some staff may not find employment either through the Collective Agreement (bumping) or with another operator.

Labour and Parent Relations: Layoffs will impact labour relations between the Region and Union, require severance between $4.7 million - $6.4 million, and will cause emotional strain on parents and staff.
Executive Summary

Option 5: Primary Benefits, Risks and Challenges

Objective: Close one of the Region’s directly operated child care centres to achieve cost savings with minimal staffing implications.

Benefits
Cost Savings and Avoidance: The Region can save $118K per year in operating costs and avoid paying $174K per year in capital costs by closing the Kinsmen centre and re-deploying staff to the others.

Re-investment: The Region can also free up $18K in levy funding for re-prioritization.

Operating Capacity: Children’s Services can operate all remaining 4 centres at 100% licensed capacity by implementing option 5.

Sale of Buildings: The Region can realize additional revenues by selling the Kinsmen Children’s Centre.

Staffing Impact: The Region can avoid mass layoffs with minimal impact on staff – only 2 layoffs – with option 5. Staff compensation is a key indicator of quality in the child care sector.

Risks and Challenges
Families Requiring Fee Subsidy: There is a risk that the Region will serve significantly less families requiring fee subsidy by closing the Kinsmen Centre. Currently 37% of children require subsidy at the centre.

Reputational Risk: Closing one centre will cause a reaction from parents and invite negative media coverage. There is a risk of reputational damage for the Region.

Licensed Spaces: Closing the Kinsmen Centre will reduce the number of licensed spaces in the Region by fifty-two (52).

Severance: The Region will need to layoff two (2) staff up to a cost of $188k.

Additional Capital Expenditures: Adding more licensed spaces to the Cambridge, Christopher and Elmira centres may require capital expenditures to re-develop the interior spaces for children.
Executive Summary - Conclusion

Third Party Review of Children’s Centres

Each Service Delivery Option relates to one or more of the Region’s Strategic Imperatives either by increasing equitable outcomes for marginalized groups, making financially sustainable decisions, or by fostering trusting relationships – in this case with community operators.

The overall goal of the review is to provide an avenue through which the Council, staff and community have the opportunity to better understand the services provided by the Region, and to assist Council in making better informed, strategic choices regarding those services and the resources required to provide them. In doing so, the outcomes of the review will support strategies that will sustain service delivery in an efficient and effective manner, as well as demonstrate value-for-money to Council, residents and other stakeholders.

KPMG has presented 5 Service Delivery options for the Region’s consideration. Each option has its own advantages, risks and challenges. The choice of service delivery depends on the Region’s strategic priorities, budgetary pressures, and vision for the future role of Children’s Services. Whereas the financial impact of selecting the service delivery option plays a pivotal role, the decision ultimately depends on what the Region envisions to be and what services it wishes to provide to the citizens of Waterloo Region. The stakeholder engagement indicated that the direct delivery of child care services is a highly valued discretionary service by children, parents and staff associated with the centres.
Introduction

Region of Waterloo
Third Party Review of Children’s Centres
Final Report
Project Overview

Project Objectives

KPMG has been engaged by the Region of Waterloo (the “Region”) to conduct an in-depth program and financial review of the Region’s Children’s Centres. This review will support the Region’s strategic approach regarding the future direction of the Children’s Centres through information, analysis, commentary, recommendations and consideration of a range of options. This review will explore the need for and number of centres in Waterloo Region as a follow up action to the 2019 Service Review completed by KPMG. This Project will include analysis and discussion on the following:

• Current state analysis of the System, including the alignment of the Region’s CMSM role.
• Current state analysis of the service delivery model of the Children’s Centres, including creating an overall service profile and specific analysis of each centre.
• Environmental scan of comparator municipalities that currently directly operate child care or have chosen to discontinue directly operating licensed centre based child care.
• Development of various service delivery options and improvements, including commentary on the advantages and disadvantages for each option.
• Recommendations identified for implementation for changes to services, programs, resources, and responsibilities, including whether specific services should be expanded, reduced, discontinued or delivered in an alternative manner. Recommendations will generally be grouped between immediate, short-term, medium term and long-term. Discussion will include the prioritization of recommendations according to ease of implementation and impact.

Project Principles

KPMG will leverage the knowledge and expertise of the Region management and employees as a foundation to conduct this review and to arrive at recommended actions through a transparent, participative and inclusive process facilitated by the consultant.

The framework and approach will be based on leading practice from municipal or other levels of government experience and/or private sector.
Project Overview

Project Scope

Phase 1: Project Planning
- Kick-off meeting with Project Sponsor & Manager and Project Steering Committee to confirm approach.
- Confirm Project Charter, including project schedule and bi-weekly status reporting structure.

Phase 2: Environmental Scan
- Documentation review.
- Stakeholder engagement:
  - 30 interviews total (estimated 45 minutes each)
    - 10 interviews with other child care operators in the Waterloo Region;
    - 10 interviews with community agencies; and
    - 10 interviews with the local union representatives or staff.
  - 5 focus groups total (estimated 60-90 minutes each)
    - 3 with the parents of children currently/previous enrolled in Children Centres; and
    - 2 focus groups covering the general public.
- On-line survey for other stakeholders.
- Comparator analysis of 6-10 comparator municipalities:
  - 3-5 who no longer directly operate child care; and
  - 3-5 who are similar or greater size and complexity to the Region that directly operate child care.

During this step, KPMG will follow up with these municipalities to gather in-depth information to benchmark against the Children’s Centres. Comparators will be identified and agreed upon by the Project Steering Committee.

- Interim Report and presentation to the Steering Committee.
Project Overview

Project Scope

Phase 3: Current State Analysis

System
- Analyze the environment and system around the Region of Waterloo’s Children’s Centres.
- Perform a complete needs assessment and market analysis of the Waterloo Region’s licensed child care system/market.

Children’s Centres
- Identification and mapping of the current service delivery model for the Region’s 5 Children Centres, in the form of Service Profiles.
- Conduct physical visits of each of the facilities.
- Interim Report and presentation to Steering Committee.

Phase 4: Service Delivery Options and Improvements

- Identification of potential opportunities for innovative service delivery through:
  (i) outright service eliminations;
  (ii) service level changes;
  (iii) changes to the method of delivering services (e.g. community partnerships, process efficiencies, changes to organizational structure, outsourcing or insourcing);
  (iv) improved business processes;
  (v) changes in delivery channels; and,
  (vi) the removal of duplication and overlap in departmental responsibilities.
- Draft recommendations on changes to services, programs, resources, and responsibilities, including whether specific services should be expanded, reduced, discontinued or delivered in an alternative manner.
- Interim Report and presentation to Steering Committee.

Phase 5: Final Analysis and Recommendation

- Draft Final Report, summarizing information gathered, key findings, analysis and opportunities/recommendations.
- Digital copy of all the activities and deliverables created for the review in source format.
- Presentations of the findings and recommendations to the Steering Committee and Regional Council.
We developed Service Delivery Options based on a strong foundation built on the environmental scan and current state analysis.

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<tr>
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<tbody>
<tr>
<td>✓ Align on project objectives and work plan</td>
<td>✓ Assess current challenges and identify initial improvement opportunities</td>
<td>• Perform current state analysis of the system and the Children’s Centres</td>
<td>• Identify potential opportunities for innovative service delivery</td>
<td>• Prepare Final Report and presentation to Steering Committee and Regional Council</td>
</tr>
<tr>
<td>✓ Kickoff meeting</td>
<td>✓ Initial data and document review</td>
<td>• Complete needs assessment and market analysis of the Waterloo Region’s licensed child care system/market</td>
<td>• Prepare Interim Report #3 and presentation to Steering Committee</td>
<td>• Draft and revise Final Report and presentation</td>
</tr>
<tr>
<td>✓ Develop project charter</td>
<td>✓ Completed stakeholder consultations</td>
<td>• Identify and map the current service delivery model for the 5 Children’s Centres, in the form of Service Profiles</td>
<td>• Prepare Interim Report #2</td>
<td></td>
</tr>
<tr>
<td>✓ Develop stakeholder plan</td>
<td>✓ On-line surveys</td>
<td>• Prepare Interim Report #1</td>
<td></td>
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<tr>
<td>✓ Comparator analysis of municipalities (10)</td>
<td>✓ Prepare Interim Report #1</td>
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Context and Background

Region of Waterloo
Third Party Review of Children’s Centres
Final Report
Data from the 2020 Children Services Operating Budget is presented below by program. Note: the following numbers are represented in thousands (000s) and excludes figures from the Capital Budget.

The total 2020 operating budget for all 5 centres is $7.1 million. This value comprises 10.2% of the total budget for Children’s Services to serve 207 children (including 45 children with Special Needs).
Service Delivery Options

Children Centres Revenues and Expenses (FY2020)

Total Revenue (in 000s)

- Levy Funding, $678
- Provincial Subsidy, $3,926
- Fee Subsidy, $423
- Parent Fees, $2,069

Total Expenses (in 000s)

- Operating Costs, $345
- Program Capital, $378
- Facilities, $679
- Salaries and Benefits, $5,694

Source: Children Centres Operating and Capital Budgets
Note: Total expenses do not include figures from the capital budget.
Parent Fees include $12K of Rental Fees from Elmira Family Day Care Centre

Salaries and Benefits is the highest expense, representing approximately 80% of the operating budget. Parent Fees include $12K of Rental Fees from Elmira Community Nursery School.
Service Delivery Options

Capital Expenditure

Capital expenses are composed of Program Area Capital and Facilities Managed Capital Renewal. The annual operating budget includes contributions towards these Capital Reserves. Reserve funding and/or debentures are used to pay for capital expenses incurred.

- **Program Area Capital**, at $9.5 million over next 10 years, includes projects driven by program changes, expansion and equipment specific to program delivery (e.g. playgrounds at childcare centres), and the redevelopment of the Edith MacIntosh Centre.

- **Facilities Managed Renewal**, at $2.6 million over next 10 years, includes the refurbishment/replacement of building components, based on building condition assessments.

<table>
<thead>
<tr>
<th></th>
<th>Carryforward 2020</th>
<th>Request 2020</th>
<th>Total 2020</th>
<th>2021</th>
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<th>2020 - 2029 Total</th>
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<td><strong>Program Area Capital</strong></td>
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</tbody>
</table>

In the next 10 years, Children’s Centres budgeted capital expenditure is $12.1 million. This is 100% levy funding and includes $6 million for the redevelopment of the Edith MacIntosh Children’s Centre in 2025/2026. The Region intends to use debt to finance the $6 million.
The Region issued debt in 2011 (for Christopher Children’s Centre) and in 2016 (for Elmira Redevelopment) amounting to $5.7 million. In 2025, an additional $6 million debt is budgeted for the redevelopment of Edith MacIntosh Children’s Centre. Debt servicing costs are funded by the levy.
Service Delivery Options

The Waitlist (0-4 Years)

The ROW uses the OneList Registration System to track and monitor the waitlist. Children’s Services have identified system data improvement opportunities of analyzing the waitlist, specifically on child care arrangements. Per 2018 parent survey, top 3 factors that influence families’ child care arrangements are location, educators, and program quality.

Licensed Capacity and Waitlist – By Municipality

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Licensed Capacity</th>
<th>Waitlist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kitchener</td>
<td>2558</td>
<td>1539</td>
</tr>
<tr>
<td>Cambridge</td>
<td>2022</td>
<td>863</td>
</tr>
<tr>
<td>Waterloo</td>
<td>1466</td>
<td>1283</td>
</tr>
<tr>
<td>North Dumfries</td>
<td>61</td>
<td>271</td>
</tr>
<tr>
<td>Wellesley</td>
<td>76</td>
<td>42</td>
</tr>
<tr>
<td>Wilmont</td>
<td>177</td>
<td>160</td>
</tr>
<tr>
<td>Woolwich</td>
<td>242</td>
<td>168</td>
</tr>
<tr>
<td>Other</td>
<td>214</td>
<td>214</td>
</tr>
</tbody>
</table>

The system represents a total of 5,657 children waiting for child care space across 61 operators, including the 5 Children’s Centres. Approximately 72% were waiting for a space with start date before September 30, 2020; 24% are looking for a space between October 1, 2020 and September 30, 2021; 4% beyond October 1, 2021.

Note: Licensed Capacity as of January 2020
Source:
- Children’s Centre Review Project Steering Committee Report 2020
- OneList Waitlist as of July 2020
- DOC#3419076
Service Delivery Options
Licensed Child Care Centre Spaces by Municipality (0-4 Years)

The highest capacity of licensed child care centre spaces are in Cambridge. Factoring in the census data of children 0-4 years, Wellesley has the least amount of coverage in licensed child care, followed by Woolwich and Kitchener. North Dumfries has the highest level of coverage at 62%.
Service Delivery Options

2019 Unused Licensed Spaces (0-4 Years)

Operating capacity represents what a program is staffed to delivery child care spaces. There is capacity across the Region’s child care system to expand the delivery of child care spaces without increasing licensed capacity. The ability to expand into unused licensed capacity would be influenced by factors, such as demand/waitlist, operator’s interest in expanding, and recruitment of educators.

<table>
<thead>
<tr>
<th></th>
<th>Directly Operated</th>
<th>Community Operators</th>
<th>2019 Total Licensed Spaces</th>
<th>Directly Operated</th>
<th>Community Operators</th>
<th>2019 Total Operating Spaces</th>
<th>Difference Directly Operated</th>
<th>Difference Community Operators</th>
<th>Total Difference</th>
<th>% under Licensed Spaces</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infant</td>
<td>16</td>
<td>316</td>
<td>332</td>
<td>9</td>
<td>317</td>
<td>326</td>
<td>7</td>
<td>(1)</td>
<td>6</td>
<td>2%</td>
</tr>
<tr>
<td>Toddler</td>
<td>90</td>
<td>1,563</td>
<td>1,653</td>
<td>70</td>
<td>1,459</td>
<td>1,529</td>
<td>20</td>
<td>104</td>
<td>124</td>
<td>8%</td>
</tr>
<tr>
<td>Preschool</td>
<td>152</td>
<td>3,268</td>
<td>3,420</td>
<td>128</td>
<td>2,868</td>
<td>2,996</td>
<td>24</td>
<td>400</td>
<td>424</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>258</td>
<td>5,147</td>
<td>5,405</td>
<td>207</td>
<td>4,644</td>
<td>4,851</td>
<td>51</td>
<td>503</td>
<td>554</td>
<td>10%</td>
</tr>
</tbody>
</table>

Note: Operating capacity as of 2019 and compared to 2019 licensed capacity.
Source:
- Children's Centre Review Project Steering Committee Report 2020
- DOC#3419076

The Region has approximately 10% existing licensed child care spaces that are unused.
Approximately 22% of children accessing licensed child care centres (0-4 years) received subsidy support; this coverage has remained consistent during 2017 to 2019. There is no waitlist in fee subsidy. The last time there was a waitlist was in 2017. Proportionally, more children attending for profit centres receive subsidy support.
Service Delivery Options

Special Needs Resourcing (SNR) - 2019/2020 Key Data

Children’s Services, as CMSM, is responsible for supporting the inclusion of children with special needs in all licensed child care programs. Children’s Services provides funding to two community agencies (KW Habilitation and KidsAbility) to provide Special Needs Resourcing supports to licensed child care programs. All service requests and referrals go through Special Needs Access Point (SNAP) administered by KW Habilitation.

The Special Needs Resourcing Collaborative works with licensed child care providers to support children with special needs. Support may be focused on the individual child, a small group, or the whole classroom and/or home.

- **993 Children or 13% in 2019**
  - The total number of children (0-4 years) in 2019 in all licensed child care centres who received individualized SNR support; representing 13% of all children who attended a licensed child care centre in 2019.

- **65 Children or 18% in 2019**
  - In 2019, a total of 65 children in Children’s Centres received SNR support; representing 18% of all the children who attended in 2019.

- **100% Access**
  - All licensed child care operators in ROW received some form of SNR support.

- **100% Access**
  - All licensed child care operators in ROW received some form of SNR support.

- **$891K and 44,763 Hours**
  - 54 licensed child care centres received Enhanced Staffing Funding support through KW Habilitation and a total of 44,763 hours of enhanced staffing support.

- **45 Children in 2020**
  - As of March 2020, there were 45 children in the Children’s Centres with individualized SNR support.

- **$4.7M in provincial funding budgeted in 2020 for SNR**
  - Children’s Services is working with SNR Collaborative to develop a data strategy to better understand the needs and outcomes of SNR support.

All licensed child care centres are assigned a Resource Consultant who provides ongoing program and classroom level SNR supports, such as training and general inclusion strategies.

The Enhanced Staffing Funding, administered by KW Habilitation, provides time-limited funding for additional staffing in a classroom to support inclusion.

In 2019, 993 children received an individualized special needs support plan; with the total provincial funding for 2020 at $4.7 million. As of March 2020, there are at least 45 children with Special Needs at the Children’s Centres.
Key themes arising from interviews with current and former CMSM operators are presented below.

**Quality**
- The municipality believes in establishing a high standard for quality in the region.
- The municipality wants to lead and provide a good example for the community.
- The municipality advocates and provides professional salaries for staff working in child care.
- The municipality directs its resources towards excellence in centre operation.
- The municipality specializes in serving at-risk families and children with Special Needs.
- The municipality employs a centralized model for child care services.

**Cost**
- The municipality believes that child care must be cost-effective for its tax base.
- The municipality wants to foster equality and collaboration between itself and other operators.
- The municipality wants to eliminate the wait list and provide access to as many children as possible.
- The municipality directs its resources to incentivize operators and build the system.
- The municipality invests in other community operators to serve parents and children.

**Leadership**
- Current Operators
- Former Operators

**Professional Salaries**
- Current Operators
- Former Operators

**Operation**
- Current Operators
- Former Operators

**Centralization**
- Current Operators
- Former Operators

**Decentralization**
- Current Operators
- Former Operators

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Service Delivery Options

Summary of Strengths from Collective Stakeholders

The Region is an effective System Manager and has a positive impact on the community

<table>
<thead>
<tr>
<th>OneList</th>
<th>Staffing Resources</th>
<th>Programs &amp; Services</th>
<th>Diversity &amp; Inclusivity</th>
<th>Funding Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The Region has a holistic view of child care needs across the Region. - A “one-stop shop” for parents to access child care.</td>
<td>- Significant investments are made in Children’s Centres staff both in compensation and professional training. - Low staff turnover provides consistency in services, and cultivates strong relationships with parents and children. - Stakeholders recognize the Region’s support in promoting wage enhancement and child care as a profession. Some respondents believe it is important for the Region to be a direct child care operator to support this effort. - Parents noted that the Children’s Centres have a positive impact to their child’s physical, cognitive, emotional and social development. Staff may be the first to detect potential development issues. - Staff provides greater attention to individual children.</td>
<td>- The Children’s Centres are often used as pilot centres for new initiatives, and provide the Region with front line understanding of child care services for system management. - The Region is efficient in providing policy guidance, training opportunities, and share regulatory updates with community operators. The Children’s Centres often share best practices. - The Region’s Quality Initiatives Program supports operators in improving their programs and services. - High Scope curriculum provides a good framework to implement How Does Learning Happen? Ontario’s Pedagogy for the Early Years. - Facilities are purpose-built and designed for child care needs.</td>
<td>- The Children’s Centres have been working towards more diversity of families attending the centres. - The Children’s Centres cater to families with Special Needs. - Strong relationships with elementary schools to support successful transition from preschool to kindergarten. - The Children’s Centres are located in communities that are difficult for non-Regional child care centres to operate in (e.g. being financially viable).</td>
<td>- Staff directly impact the quality of child care services delivered to the community; hence, the compensation level reflects this value. - Parent fees are comparable to other operators. - Parents believe value-for-money is high for the services offered at the Children’s Centres. - In addition to provincial grants, operators appreciate the additional funding support the Region provides.</td>
</tr>
</tbody>
</table>

Positive feedback, specifically regarding excellent staff and high quality programs and services, at the Children’s Centres came from Management, Children Centre’s staff and parents of children currently and previously enrolled. Community agencies and child care operators also appreciated elements of services provided by the Region (such as promoting child care as a profession, funding support and sharing of best practices).
### Service Delivery Options

#### Summary of Challenges from Collective Stakeholders

Key challenges are summarized below

<table>
<thead>
<tr>
<th>OneList</th>
<th>Staffing Resources</th>
<th>Programs &amp; Services</th>
<th>Diversity &amp; Inclusivity</th>
<th>Funding Levels</th>
</tr>
</thead>
</table>
| - New parents or new comers are not aware of the OneList Registration system.  
  - Parents express frustration with waitlist communication (e.g. parents were contacted after their registered dates of child care need).  
  - General perception is that parents need connections and constant check-ins with operators to get their child enrolled at a centre.  
  - Child care centres have long waitlists. Managing OneList waitlist is time consuming for Children’s Centre staff and child care operators.  
  - Some operators have their own registration system and requires them to monitor two systems. Parent perception is that these operator’s are more proactive in maintaining their own system data. | - Industry-wide shortage of qualified ECEs resulting in recruiting and retention challenges for child care operators. The Children’s centres compensation level adds additional challenge to attracting talent.  
  - Availability of child care spaces are subject to staff-to-children ratios and licensed capacity requirements.  
  - There is a perception that the Children’s Centre staff are disconnected from the child care community. | - High Scope curriculum is expensive and a barrier for child care operators to adopt. Other curriculums are comparable to High Scope in providing quality child care and meeting Ministry requirements.  
  - The Children’s centres’ facilities are high-end and are difficult to replicate across the community.  
  - New licensed child care operators noted that it is challenging to enter into a funding and service contract with the Region, specifically meeting contract requirements and fulfilling a 12-month waiting period.  
  - Location is a key factor for parents in selecting child care providers. The Children’s Centres’ locations are not convenient for a lot of parents. | - What is the definition of “inclusion”? This is unclear for agencies working with vulnerable population. There are perceptions that children enrolled in the Children’s Centres receive higher priority in obtaining subsidy or resource support.  
  - OneList assumes that families have equal access to computers, internet and phone services. This is not the case for many vulnerable families.  
  - Historically there was not much diversity in the Children’s Centres. Only a small portion of the Region’s population get to experience the high level of services the Children’s Centres offer. There is a sense of disparity in the community.  
  - New parents or new comers are not aware of the Region’s Children’s Centres putting them at a disadvantage in obtaining child care. | - Children’s centres have a different funding model than non-Regional child care centres. Operationally, hard for non-Regional operators to see the Children’s centres as a “model.” Non-Regional operators are unable to pay staff the same level of compensation and afford purpose-built facilities.  
  - Perception is that parent fees and staff wages are subsidized by levy dollars, and Children’s Centres have first access to funding and resource support.  
  - The larger operators indicated they should be given the opportunity to test any new programs at their centres (this role shouldn’t be solely performed by the Region).  
  - Some stakeholders believe re-allocating Children’s Centres funding can increase quality, child care space, and geographic coverage across the Region. |

OneList waitlist was a key challenge expressed by almost all stakeholders. Staffing, programs and services, diversity and inclusivity and funding challenges were primarily from community agencies and community childcare operators.
Service Delivery Options

Region of Waterloo
Third Party Review of Children’s Centres
Service Delivery Options

Options for Service Delivery

The Service Delivery Options:

01. **Refocus priorities of Children’s Centres**
   Objective: Increase operating capacity and re-strategize enrollment priorities.

02. **Initiate cost saving measures**
   Initiate cost saving measures to increase the financial viability of the 5 centres.

03. **Lease the centres to a community operator**
   Objective: Provide child care services through an alternative service delivery model. The Region retains ownership of the Children Centre facilities, but operation is transferred to a community operator.

04. **Closure of one or more centres**
   Objective: Close one or more of the Region’s directly operated child care centres to achieve cost savings for the Region.

05. **Closure of one centre with re-deployment of staff**
   Objective: Close one of the Region’s directly operated child care centres to achieve cost savings with minimal staffing implications.
Service Delivery Options
Options for Service Delivery

The service delivery options were developed in consideration of the following:

- Support the Region's values: Respect, Collaboration, Innovation, Service, and Integrity and align with the Region's Strategic Plan.
- Align with Children's Services vision: Waterloo Region is a community where all children thrive and with the Early Learning and Child Care Service Plan 2016-2020.
- Reflective of engagement with key community stakeholders.
- Reflective of findings from the current state analysis and jurisdictional scan.

Each of the options reflect one or more aspects of the Regions Strategic Plan and Children’s Services Vision.

<table>
<thead>
<tr>
<th>Service Delivery Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1 - Refocus priorities of Children’s Centres</td>
</tr>
</tbody>
</table>
| Option 2 - Initiate cost saving measures to increase the financial viability of the 5 centres.
| Option 3 - Lease the centres to a community operator |
| Option 4 - Closure of one or more centres |
| Option 5 - Closure of one centre with re-deployment of staff |
## Service Delivery Options

### Assessment of Service Delivery Models based on CMSM Vision

| Availability | — Geographic Locations and Licensed Child Care Spaces: The locations and number of child care spaces available at the community level to meet family needs and demand for child care.  
| — Expansion: Supports the development of new and/or builds upon existing community partnerships to expand licensed child care services (e.g. building local child care capacity).  
| — Flexibility of Choice: Provides a range of licensed child care options at the local level that respond to the changing needs of families and communities. |
| Affordability | — Parent Fees: Parent fees are set by licensed child care operators based on operating cost and access to provincial and regional grants and funding. Provincial and regional funding make child care spaces more affordable for all families.  
| — Child Care Fee Subsidy: Families that are financially vulnerable are able to afford quality licensed child care. In ROW, fee subsidy can be applied to any licensed operator that has a Purchase of Service Agreement with the Region. |
| Accessibility & Inclusion | — Equitable Access to Licensed Child Care Spaces: Licensed child care centres’ enrollment policies and practices enable equitable access to all families in ROW.  
| — Inclusion and Responsiveness: Child care programs are responsive to the needs of all children, including children with special needs. |
| Accountability & Quality | — Leadership: Allows the Region of Waterloo to continue its leadership role in advancing system integration and enhancing early learning and child care services (e.g. strategic resource allocation)  
| — Service Quality: Supports the continued delivery of high quality, outcomes-based early learning and child care services that incorporate current research and best practices.  
| — Fiscal Accountability: Demonstrates fiscal responsibility by using resources efficiently maximize system outcomes that align with strategic priorities (e.g., four pillars). |

KPMG assessed each service delivery model against the CMSM’s vision based on the four pillars.
Service Delivery Options

Quality Indicators for Child Care

01 Child to staff ratio
02 Mix and size of infant, toddler and pre-school age groups
03 Legislative requirements (e.g. health and safety, building codes)
04 Ministry requirements (e.g. rooms and activity space)
05 Teaching and care routines
06 Activities (e.g. fine motor, art, music, math/number)
07 Professional training and certifications
08 Continuous on-the-job training and professional development
09 Wages and benefits
10 Working hours and schedules
11 Centre's leadership
12 Continuous improvements
13 Parent satisfaction

Sources:
1. DOCS #3310169 Children’s Centre Review Project Steering Committee June 9, 2020 presentation
2. Employment and Social Development Canada: Defining and measuring the quality of Early Learning and Child Care: A literature review

For each service delivery model, KPMG considered the impact on the 6 indicators of quality (Accountability and Quality pillar).
Summary of the Five Options

Region of Waterloo
Third Party Review of Children’s Centres
Final Report
Service Delivery Options

Continue Direct Delivery of Children’s Centres

Advantages
The Region can use the centres to pilot program and system level initiatives prior to rolling it out to the community.
Quickly respond to emerging needs (COVID 19 response).
Serves as an example of high quality child care to the community.
Professionalization of RECEs through competitive wages used as a benchmark by community operators.
Region Centres have low staff turnover and professional training. These are both associated in the research with better program outcomes.
The centres are purpose built and designed for child care needs.

Challenges
Higher cost of operating Children’s centres.
Significant capital expenditures required at the centres in the coming years.
Lack of formalized enrollment strategy the centres serve on a first come, first serve basis. One of the purposes of the centres is to serve vulnerable children. It appears that there:
• is a declining trend in families receiving fee subsidies
• are no targets related to enrollment of children with special needs
• is room for improvement in terms of understanding the diversity of children being served at the centres
• is continuing challenges with OneList registration system known since 2016.
The centres are operating below licensed capacity. To increase operating capacity more staff is required leading to further costs.
Perceived conflict of interest continues with community operators.

Options 1, 2 & 5

Option 1 (Refocus priorities of Children’s Centres), Option 2 (Initiate cost saving measures) and Option 5 (Closure of one centre with re deployment of staff)
Option 1: Refocus priorities of Children’s Centres

Region of Waterloo
Third Party Review of Children’s Centres
Option 1
Refocus Priorities of the Children’s Centres

Objective  Increase operating capacity and re-strategize enrollment priorities.

KPMG proposes the following for this option:
1.1 - The Children’s Centres would offer an additional 50 spaces in order to operate at near licensed capacity thereby reducing the waitlist
1.2 - The Centres would reprioritize their focus to serve more families requiring fee subsidy
1.3 - The Centres would reprioritize their focus to serve more families Special Needs Supports

KPMG acknowledges that Children’s Services had also identified the above options as areas for improvement and were waiting Council direction (post this review) for follow up actions.

Impact
The Children’s Centres will operate at 100% reducing the waitlist by 7%.

With an enhanced enrollment strategy more families requiring fee subsidy will be served and better understanding of special needs supports data will allow the Region to understand the need for SNR and the associated service levels

Benefits
The Region can continue to provide direct delivery of children centres resulting in the following benefits:
- The Region can use the centres to pilot program and system level initiatives prior to rolling it out to the community.
- Quickly respond to emerging needs (COVID-19 response).
- Serve as an example of high quality child care to the community.
- Professionalization of RECEs through competitive wages used as a benchmark by community operators.
- Region Centres have low staff turnover and professional training. These are both associated in the research with better program outcomes.
- The centres are purpose built and designed for child care needs.
Option 1
Refocus Priorities of the Children’s Centres

Risks and Challenges

• Increasing operating capacity would require Council to approve the hiring of additional RECEs. Per staff feedback, there has been challenges in the past to obtain such approval.

• Adjusting enrolment practices:
  ➢ Requires working with community partners who already support families with children with special needs, or families in need of financial support.
  ➢ Would require the collection and analysis of demographics, attendance, subsidy and special needs. The Region will need to address concerns from families already on the waitlist regarding changes to the enrollment criteria.
  ➢ May have an impact on the vacancy loss percentages.

• Centres staff make referrals to KW Habilitations and KidsAbility when additional support needs are identified. KW Habilitation and KidsAbility track the statistics related to children with special needs and supports provided. Whereas the centres have extensive data on how each child is supported, they do not have the statistics collected by KW Habilitation and KidsAbility, and therefore may not have a holistic lens on the children being served.

Suggested Actions

• The Centres should re-evaluate its current service delivery approach of increasing operations to licensed capacity.
• The Centres should develop an enrollment strategy defining its target demographic and associated enrollment ratio. The Enrollment Policy should be redesigned to meet strategic priorities.
• The centres should enhance data collection to include children receiving support.

To support a systematic approach to determining enrollment ratios and priorities:
• Children’s Services should work on improving public awareness of OneList and the processes to obtain financial and special needs support.
• Children’s Services should work with OneList vendor to improve reporting capabilities (e.g. reporting by unique child, length of waitlist time, etc.). Also consider integrated reporting of OneList, fee subsidy and special needs data. Explore using administrative software and tools at the Centres to improve data management (i.e. electronically track and monitor enrollment, attendance, vacancy data, and use of special needs resources).
# Option 1: Refocus priorities of Children’s Centres

## Increase Operating Capacity to Licensed Capacity [1.1]

### Table: Operating Capacity vs. Licensed Capacity

<table>
<thead>
<tr>
<th>Centre</th>
<th>Operating Capacity</th>
<th>Licensed Capacity</th>
<th>Total Difference</th>
<th>% Under Licensed Capacity</th>
<th>Waitlist (as of July 27, 2020)</th>
<th>Reduction of Waitlist</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge</td>
<td>42</td>
<td>52</td>
<td>10</td>
<td>19%</td>
<td>94</td>
<td>11%</td>
<td>2 toddler groups</td>
</tr>
<tr>
<td>Christopher</td>
<td>47</td>
<td>58</td>
<td>11</td>
<td>19%</td>
<td>197</td>
<td>6%</td>
<td>1 infant and 1 preschool group</td>
</tr>
<tr>
<td>Kinsmen</td>
<td>39</td>
<td>52</td>
<td>13</td>
<td>25%</td>
<td>71</td>
<td>18%</td>
<td>1 toddler and 1 preschool group</td>
</tr>
<tr>
<td>Elmira</td>
<td>45</td>
<td>62</td>
<td>17</td>
<td>27%</td>
<td>143</td>
<td>12%</td>
<td>1 infant, 1 toddler and 1 preschool group</td>
</tr>
<tr>
<td>Edith MacIntosh</td>
<td>34</td>
<td>34</td>
<td>0</td>
<td>0%</td>
<td>231</td>
<td>0%</td>
<td>No change; already at licensed capacity</td>
</tr>
<tr>
<td>Total</td>
<td>207</td>
<td>258</td>
<td>51</td>
<td>20%</td>
<td>736</td>
<td>7%</td>
<td></td>
</tr>
</tbody>
</table>

### Table: Potential Fee Revenue vs. Staffing Cost

<table>
<thead>
<tr>
<th>Centre</th>
<th>Potential Fee Revenue</th>
<th>Potential Staffing Cost</th>
<th>Potential Net Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge</td>
<td>121,142</td>
<td>230,425</td>
<td>109,283</td>
</tr>
<tr>
<td>Christopher</td>
<td>143,205</td>
<td>230,425</td>
<td>87,220</td>
</tr>
<tr>
<td>Kinsmen</td>
<td>150,440</td>
<td>230,425</td>
<td>79,985</td>
</tr>
<tr>
<td>Elmira</td>
<td>203,776</td>
<td>345,638</td>
<td>141,862</td>
</tr>
<tr>
<td>Edith MacIntosh</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>$618,562</td>
<td>$1,036,913</td>
<td>$418,351</td>
</tr>
</tbody>
</table>

### Calculations:

- **Difference between operating and licensed capacity:**
  - Staff believe that the Centres provide higher quality of care when operating under capacity (i.e. more individual attention, more physical space).
  - Increasing operating capacity would require Council approval to hire additional RECEs.
  - Based on current operating hours, each additional child group would need an additional 1.3 FTE teacher coverage to meet Ministry requirements and the collective bargaining agreement.

### Calculation Assumptions:

- Analysis of servicing an additional 50 spaces. 1 infant space at Elmira excluded (outside of Ministry ratio requirements).
- Potential fee revenue is estimated with the assumption of no fee increases and all new spaces are full fee. (Daily fee x 238 billing days x additional spaces).
- Assume hiring full time RECE (salary and benefit at $88,625 per position).
- No change to facility and non-personnel related operating cost.
- Excludes estimate of Ministry funding support.

---

The Children’s Centres are operating 20% under licensed capacity. Assuming no changes in facility space, increasing operations to licensed capacity would require hiring additional RECEs with a potential net cost increase of $418k to the Region. Increasing operating capacity could potentially reduce the Children’s Centres waitlist by 7%.
Option 1: Refocus priorities of Children’s Centres

Re-Strategize Enrollment Priorities - Fee Subsidy [1.2]

Per OCCMS data there has been a declining trend in the number of children receiving fee subsidy at the Centres. The trend corresponds generally with a change in waitlist practices. Staff indicate they believe that the waitlist may not provide equitable access to lower income families because many of these families may not go on the waitlist early enough to secure a space. The Centre’s have an occupancy target of 95%, minimizing vacancy loss may also impact enrollment trends.

2017 – 2019 % Change in Number of Children Receiving Subsidy Support

<table>
<thead>
<tr>
<th>Subsidy % Change</th>
<th>Full Fee % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge</td>
<td>Christopher</td>
</tr>
<tr>
<td>Kinsmen</td>
<td>Elmina</td>
</tr>
<tr>
<td>Edith</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Children Receiving Subsidy</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Subsidy</td>
<td>Full Fee</td>
<td>Subsidy</td>
</tr>
<tr>
<td>Cambridge</td>
<td>15</td>
<td>57</td>
<td>19</td>
</tr>
<tr>
<td>Christopher</td>
<td>35</td>
<td>50</td>
<td>28</td>
</tr>
<tr>
<td>Kinsmen</td>
<td>32</td>
<td>44</td>
<td>30</td>
</tr>
<tr>
<td>Elmina</td>
<td>9</td>
<td>54</td>
<td>7</td>
</tr>
<tr>
<td>Edith MacIntosh</td>
<td>9</td>
<td>46</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>251</td>
<td>92</td>
</tr>
</tbody>
</table>

Sources
1. DOC# 3330883 Children’s Centre OCCMS Subsidy Data

The Children's Centres have inconsistent enrollment practices for enrolling children that need fee subsidy support. The key driver for this inconsistency may be waitlist practices. Minimizing vacancy loss may also impact enrollment trends. The Centres need to review their enrollment policy to prioritize children requiring fee subsidy support while balancing occupancy targets.
Option 1: Refocus priorities of Children's Centres

Re-Strategize Enrollment Priorities - Special Needs Resourcing [1.3]

KW Habilitation assesses a child’s need and determines what type of support the child is eligible for. When the child requires higher levels of support, additional “enhanced staffing” is provided. The Enhanced Staffing Funding, administered by KW Habilitation, provides time-limited funding for additional staffing in a classroom to support inclusion.

The data and cost for Children’s Centres to provide special needs support is tracked but not analyzed by the Centres.

- “Enhanced special needs staffing” levels are based on the needs of the child/classroom. The staff levels are not tracked separately from the regular use of part time or casual staff.
- Region staff salaries exceed the maximum financial support available through “Enhanced Staff Funding” program guidelines (e.g. $20/hr in 2017). It is unclear whether the levy or another provincial funding program is used to cover the difference in staff salary.
- The Children’s Centres sometimes will arrange staff support that exceed what was approved by KW Habilitation.
- The Centres may arrange additional RECE staff temporarily to support children that do not meet the special needs criteria, i.e. children with mild/moderate behavioural challenges or speech and language delays.

<table>
<thead>
<tr>
<th>Special Needs Resourcing Support (as of March 13, 2020)</th>
<th>Cambridge</th>
<th>Christopher</th>
<th>Kinsmen</th>
<th>Elmira</th>
<th>Edith MacIntosh</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Children Receiving SNR</td>
<td>18</td>
<td>12</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>45</td>
</tr>
<tr>
<td>Total Operating Capacity</td>
<td>42</td>
<td>47</td>
<td>39</td>
<td>45</td>
<td>34</td>
<td>207</td>
</tr>
<tr>
<td>% of SNR</td>
<td>43%</td>
<td>26%</td>
<td>15%</td>
<td>11%</td>
<td>12%</td>
<td>22%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Enhanced Staff Funding Received</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of children receiving Enhanced Staffing Support</td>
<td>$71,291</td>
<td>$44,597</td>
<td>$49,697</td>
</tr>
<tr>
<td>Special Needs / Enhanced Staffing Levels</td>
<td>Unknown</td>
<td>Unknown</td>
<td>TBD</td>
</tr>
</tbody>
</table>

Sources:
1. Children’s Centre SNR Data
2. DOC# 3372864 Children’s Centre Enhanced Staff Funding

The centres gather data about each child’s development and plans to support development are created for every child, including children with special needs. There is room for improvement in how data and the cost for special needs support is tracked and analyzed. The Centres should consider revising their administration practices (i.e. separate tracking of special needs staff support) to understand the need for SNR and the associated service levels.

Overall, the Centres should define their enrollment strategy, including target ratios, of the types of families they want to serve. The enrollment policy and operational practices should be realigned to serve targeted demographics.
Option 1

Refocus Priorities of the Children’s Centres

All three considerations for Option 1 are viable and align with the Region’s CMSM vision.

Assessment of this option based on CMSM vision:

1. **Availability** - Increasing operating capacity to licensed capacity will serve more families and reduce the waitlist.
2. **Affordability** - Increasing enrollment ratio of children that need fee subsidy support will support more lower-income families of their child care needs.
3. **Accessibility & Inclusion** - This option would allow the Children’s Centres to be more strategic about their support of children with Special Needs.
4. **Accountability & Quality** - The Centres would be repositioned as a "model" of high quality child care serving the vulnerable population of the Region.

This option can be implemented alongside Option #2: Initiate cost savings.

**VIABILITY ASSESSMENT**

1.1 - Increase operating capacity to licensed capacity

With Council’s approval to hire additional RECEs, the Children’s Centres can increase operations to full licensed capacity (at an additional cost of approximately $418k) and reduce the waitlist by 7%.

1.2 - The Centres should reprioritize focus to serve more families requiring subsidies

The Children’s Centres can define their enrollment strategy, including target demographics they want to serve. Enrollment practices can be adjusted to prioritize admission of families that need fee subsidy support while balancing occupancy targets.

1.3 - The Centres should reprioritize its focus to serve more families with special resourcing needs

As part of defining the Children’s Centres enrollment strategy, the Centres will need to improve processes to track and analyze special needs resourcing data to understand service needs and the associated service levels. This will allow the Centres to prioritize serving more families with special resourcing needs.
Option 2: Initiate cost saving measures

Region of Waterloo
Third Party Review of Children’s Centres
# Option 2

## Initiate Cost Saving Measures

### Objective

Initiate cost saving measures to increase the financial viability of the 5 centres and align the budget with anticipated Provincial cuts to Child Care.

KPMG proposes 6 cost-saving measures for consideration:
1. Increase Pre-School Enrollment (cost savings = $1.5M per year)
2. Salary cuts of 20% for all Positions in the Centres (cost savings = $1.1M per year)
3. Outsource Cooking and Meals (cost savings = $482K per year less the cost to outsource)
4. Increase Parent Fees (cost savings = between $41K and $164K per year)
5. Reduce Facility and Capital Expenditures (cost savings = $25K per year + one-time amount of $470K in playground construction)
6. Reduce Mileage, Meetings and Travel (cost savings = $2K per year)

### Impact

Cost saving measures will reduce affordability, accessibility and inclusion, and quality. Reducing facility and capital expenditures will slow improvements to the rooms, activity spaces, play equipment and playgrounds. According to interviews with former operators, Councils often reviewed the long-term viability of municipal child care since it was an expensive discretionary service. Moreover, its draw on the levy could be re-directed towards services with greater need. Cost saving measures are therefore important to ensure the long-term viability of municipal child care – particularly now, in the wake of COVID-19.

Overall, the Region can save between $41K* per year and $1.5 million per year** (plus a one-time amount of $470K in playground construction) by implementing one or more of these options.

### Benefits

The cost saving measures will enable Council to deliver child care services more economically over the long-term. These measures also prepare the Region’s budget for the possibility of future Provincial Funding cuts (if the Province chooses to follow through on some/all announced funding changes).

The Region can continue to provide direct delivery of children centres resulting in the following benefits:
- The Region can use the centres to pilot program and system level initiatives prior to rolling it out to the community.
- Quickly respond to emerging needs (COVID-19 response).
- Serve as an example of high quality child care to the community.
- Professionalization of RECEs through competitive wages used as a benchmark by community operators.
- Region Centres have low staff turnover and professional training. These are both associated in the research with better program outcomes.
- The centres are purpose built and designed for child care needs.
Option 2

Initiate Cost Saving Measures

Risks and Challenges

- Future Provincial funding changes are unknown. There is a risk that the Province may choose to follow through on some/all announced funding changes.
- Increasing pre-school enrollment requires the elimination of half the RECE positions which will cause labour relations issues and attract negative media attention. The Region would need to address the concerns of staff and media with due care.
- Offering all 207 licensed spaces to pre-school children would strain the realization of the CMSM’s objectives, namely to provide accessible, inclusive child care and respond to community needs and demands. As at July 2020, the greatest demand for child care (waitlist) at the centres pertained to toddlers (46%) followed by pre-schoolers (29%) and infants (25%).
- The Region, as CMSM, would lose the ability to identify children requiring Special Needs and other supports at an early age if it only offered care for pre-schoolers.
- Salary cuts will be emotionally and financially straining for staff and some may seek employment elsewhere. The Region may experience a slight increase in staff turnover.
- Salary cuts will cause labour relations issues; however, staff would still be paid in the 95th percentile in Ontario after the salary cuts.
- Increasing parent fees will limit access for lower-income families to municipal child care if they cannot receive a subsidy. There is a risk that the community may perceive the Region is operating day care for wealthier families.
- Eliminating the Cook position and expenditures on meals may reduce the quality of meals provided.
- Children will have to use old playgrounds and equipment with reductions in capital expenditures.

Suggested Actions

According to interviews with former operators, the Region should address concerns from staff and the public with transparency and carefully explain the rationale for cost saving measures.

The Region will also need to give more preference to lower-income families – in the wait list criteria - to prevent their marginalization from child care should the Region increase parent fees.

For permanent layoffs, the Region will need to provide the Union no less than 30 days of notice and must meet with the Union to discuss the impact of proposed layoffs according to section 8.03 (h) of the Collective Bargaining Agreement (CBA). Employees must be given at least 60 days notice prior to lay-off, and are permitted to exercise “bumping rights” within 10 working days of notice. Bumping occurs according to bargaining unit seniority as well as skill, qualifications, abilities and competence (s. 8.03 (f)). Moreover, the Region should help staff transition to different roles, if possible, or provide training opportunities to help them find new work.
Option 2: Initiate Cost Saving Measures

Cost Saving Measure #1: Increase Pre-School Enrollment

The Region can realize $1.5 million in cost savings per year by offering only pre-school day care. The centres currently serve 128 preschoolers (62% of all children served). This cost-saving option entails offering all 207 spaces to preschoolers. The Region would bring in less revenue with this option – the daily rate for preschoolers is $47.20 (compared to $50.90 for toddlers, and $74.50 for infants). However, it would achieve major cost savings since only 1.3 RECEs are needed for every 8 preschoolers (compared to 1.3 RECEs for 5 toddlers, and 1.3 RECEs for 3 infants). These cost savings assume that parents would pay for 238 days of childcare.

- **$1,594,092** Salary and Benefits
  - The Region can realize $1.6 million in savings per year by eliminating 17.67 FTE positions for RECEs. Only 34 RECEs would be needed to serve 207 preschoolers.

- **($120,547)** Additional Revenues
  - The Region would lose $120,547 in revenues per year by serving only preschoolers. This loss in revenue is offset by cost savings in salaries and benefits.

**$1,473,545** Cost Savings per Year

Sources
1. Centre Budgets and Actuals
2. 2020 FTE Planning

The Region can realize $1.5 million in cost savings per year by serving only preschoolers. These savings are significant because the Region would only need 34 RECEs to serve 207 preschoolers. Currently there are 52 RECE FTEs.
Option 2: Initiate Cost Saving Measures

Cost Saving Measure #2: Salary and Benefit Cuts of 20%

The Region can realize $1,082,361 in cost savings per year with salary and benefit cuts of 20% for all positions in the centres (Supervisors, RECEs, Aids, and Cooks). In this case the revised hourly wage for RECEs would be $29.31/hour – still within the top 5% across the Province of Ontario. The Region would need to negotiate salary cuts through negotiations between management and the union. Below, these incremental cost savings are broken down below by source.

Sources
1. Centre Budgets and Actuals
2. 2020 FTE Planning
3. Ontario’s Early Years and Child Care Annual Report 2019
Option 2: Initiate Cost Saving Measures

Cost Saving Measure #2: Sensitivity Analysis of Salary Cuts

This sensitivity analysis shows the impact of cutting salaries and benefits by 5%, 10%, 15% and 20% - should the Region decided to entertain a different level of cuts. It also presents the revised average RECE hourly wage and corresponding percentile in Ontario.

<table>
<thead>
<tr>
<th>Position</th>
<th>5% Cut</th>
<th>10% Cut</th>
<th>15% Cut</th>
<th>20% Cut</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervisor</td>
<td>31,348</td>
<td>62,695</td>
<td>94,043</td>
<td>125,391</td>
</tr>
<tr>
<td>RECEs</td>
<td>223,874</td>
<td>447,748</td>
<td>671,622</td>
<td>895,497</td>
</tr>
<tr>
<td>Cooks and Aids</td>
<td>15,368</td>
<td>30,737</td>
<td>46,105</td>
<td>61,473</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>270,590</td>
<td>541,180</td>
<td>811,771</td>
<td>1,082,361</td>
</tr>
</tbody>
</table>

**RECE Wage Analysis**

<table>
<thead>
<tr>
<th></th>
<th>2018 Avg. RECE Wage at Regional Centres</th>
<th>New RECE Wage (after cuts)</th>
<th>New RECE Wage Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>36.64</td>
<td>34.81</td>
<td>96th</td>
</tr>
<tr>
<td></td>
<td></td>
<td>32.98</td>
<td>96th</td>
</tr>
<tr>
<td></td>
<td></td>
<td>31.14</td>
<td>96th</td>
</tr>
<tr>
<td></td>
<td></td>
<td>29.31</td>
<td>95th</td>
</tr>
</tbody>
</table>

Sources
1. Centre Budgets and Actuals
2. 2020 FTE Planning
3. Ontario’s Early Years and Child Care Annual Report 2019

The average RECE wage for staff working in the 5 centres will remain in the top 5% of wages in Ontario if the Region decides to cut salaries and benefits up to 20%.
Option 2: Initiate Cost Saving Measures

Cost Saving Measure #3: Outsource Cooking and Meals

The Region can realize $482,232 in cost savings per year by eliminating the Cook positions and meal expenditures. The Child Care and Early Years Act (2014) requires that licensed providers supply a meal during meal time; therefore, these cost savings would be offset by the price to outsource meals (estimated at $392,000) resulting in net savings of $90,000.

Outsourcing would need to be accomplished not through layoffs but attrition. The existing 5 Cook positions are unionized roles and the CBA precludes layoffs in order to outsource services to third parties. Below, these cost savings are broken down by source.

- **$482,232** Cost Savings per Year
- Offset by the cost to outsource meals
- **$322,458** Cook Salaries and Benefits
  - The Region can realize $322,458 in savings by eliminating 5 cook positions (one for each centre). Each Cook is equivalent to 0.86 FTEs.
- **$159,774** Food & Beverages
  - The Region can realize $159,774 in savings by eliminating all food and beverage costs (7070110 accounts).
- **Third Party Vendor**
  - The Region can consider outsourcing to a third party vendor at a cost of approximately $392k/year for all 5 centres resulting in $90k in savings.
  - There would be additional costs for hiring staff for heating/distributing food and cleaning dishes at the centres.
- **Sunnyside Long Term Care**
  - Besides the cost of food, there would be additional costs such as:
    - cost of transporting food
    - there might be additional costs for hiring staff for heating/distributing food and cleaning dishes at the centres
    - Any capital expenditures at Sunnyside

Over time, the Region can realize $482k in cost savings (2020 dollars) less the cost to outsource meals by eliminating the Cook positions through attrition and corresponding meal expenditures. The estimated net savings would be $90k.

Sources:
1. Centre Budgets and Actuals
Option 2: Initiate Cost Saving Measures

Cost Saving Measure #4: Increase Parent Fees

The Region can realize an additional $164,208 in revenues per year by increasing parent fees to match the higher end of the market in Waterloo. Below, these incremental revenues are broken down by type of service (infant, toddler and pre-school fees). The last time the Region increased fees was in late 2019 after the Province ended the fee-reduction pilot program. These calculations assume that current operating capacity (207) remains constant and that parents pay for 238 days of service per year.

- **$164,208** Additional Revenues per Year
  - **$1,050** Infant Fees
    - The Region can realize an additional $1,050 in infant fees per year by increasing the daily fee from $74.70 to $75.19.
  - **$78,469** Toddler Fees
    - The Region can realize an additional $78,469 in toddler fees per year by increasing the daily fee from $50.90 to $55.61.
  - **$84,690** Pre-School Fees
    - The Region can realize an additional $84,690 in pre-school fees per year by increasing the daily fee from $47.20 to $49.98.

Sources:
1. Summary of Child Care Fees (0 to 4) in Waterloo Region as of July 1, 2019, Average Daily Rates (DOCS_ADMIN/#3330272)
2. Children’s Centre Data
Option 2: Initiate Cost Saving Measures

Cost Saving Measure #4: Sensitivity Analysis of Increased Fees

This sensitivity analysis shows the impact of increasing fees within a range. The upper limit of the range represents the average maximum price being charged between the Region, Non-Profits and For-Profits.

<table>
<thead>
<tr>
<th></th>
<th>Incremental Revenues per Year</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Infant</td>
<td></td>
<td>$262</td>
<td>525</td>
<td>$787</td>
</tr>
<tr>
<td>Toddler</td>
<td>$19,617</td>
<td>39,234</td>
<td>$58,851</td>
<td>$78,469</td>
</tr>
<tr>
<td>Pre-School</td>
<td>$21,172</td>
<td>42,345</td>
<td>$63,517</td>
<td>$84,690</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$41,051</strong></td>
<td><strong>$82,104</strong></td>
<td><strong>$123,155</strong></td>
<td><strong>$164,209</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Corresponding Pricing per Day</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Infant</td>
<td></td>
<td>74.82</td>
<td>74.95</td>
<td>75.07</td>
</tr>
<tr>
<td>Toddler</td>
<td></td>
<td>52.08</td>
<td>53.26</td>
<td>54.43</td>
</tr>
<tr>
<td>Pre-School</td>
<td></td>
<td>47.90</td>
<td>48.59</td>
<td>49.29</td>
</tr>
</tbody>
</table>

Sources:
1. Summary of Child Care Fees (0 to 4) in Waterloo Region as of July 1, 2019, Average Daily Rates (DOCS_ADMIN_#3330272)
2. Children’s Centre Data

The Region can save between $41k and $164k per year by increasing child care fees using the above pricing.
Option 2: Initiate Cost Saving Measures

Cost Saving Measure #5: Reduce Discretionary Facility and Capital Expenditures

The Region can achieve $25,000 per year in cost savings by cutting expenditures for discretionary minor capital expenditures such as playground updates. The Region can also save $470,000 – a one-time savings – by eliminating the planned playground upgrades for the Cambridge and Christopher Children’s Centres and the planned infant room conversion for Kinsmen Children’s Centre. The playground upgrades have already been designed at a cost of $15,000 each and the design process for the infant room is in progress. Construction has been suspended for 2020.

**Cost Savings per Year**
- $25,000

**One Time Cost Savings**
- $470,000

**Play Equipment & Playgrounds**
- The Region can save $25,000 per year by reducing expenses for play equipment and playground updates.

**Playground Construction & Infant Room**
- The Region can save $470,000 by cancelling playground construction for the Cambridge and Christopher Children’s Centres and the planned infant room conversion for Kinsmen.

Sources
1. Children’s Services 2016 Capital Planning
2. Centre Budgets and Actuals
Option 2: Initiate Cost Saving Measures

Cost Saving Measure #6: Reduce Mileage, Meetings and Travel

The Region can achieve $2,110 per year in cost savings by cutting expenditures for casual mileage, meetings and other travel by 50%. Below the source of these savings is shown:

$2,110 Cost Savings per Year

$1,397 Casual Mileage
The Region can realize $1,397 in savings by cutting casual mileage by 50%. (GL = 7320060 Casual Mileage).

$713 Meetings and Other Travel
The Region can realize $713 in savings by cutting meetings and other travel by 50% (GL = 7320080 Meetings and Other Travel).

Notes:
1 – This figure is based on a 3 year average for expenses in accounts 7320060 – Casual Mileage and 7320080 – Meetings and Other Travel.

Sources
1. Children’s Services 2016 Capital Planning
2. Centre Budgets and Actuals

The Region can save $2K per year by cutting expenditures for casual mileage, meetings and other travel by 50%. This has also been identified as a cost saving measure for the 2021 budget cycle by Children’s Services.
Initiate Cost Saving Measures

Only four out of six cost saving measures are viable.

Assessment of this option based on CMSM vision:

1. **Availability** - Cost saving measures will have no impact on the number of available child care spaces in the Region. However, there would be less toddler and infant spaces in the Region should it decide to offer more pre-school spaces. In turn, parents would have less flexibility of choice.
2. **Affordability** - Increasing parent fees would make child care less affordable, particularly for low-income families, who would need to rely more heavily on child care subsidies.
3. **Accessibility & Inclusion** - Increasing parent fees and offering more pre-school spaces will reduce the number of licensed spaces for toddlers and infant requiring Special Needs supports. Lower income families may be prevented from accessing municipal child care due to higher fees.
4. **Accountability & Quality** - Some of the cost saving measures will reduce service quality, e.g. children will not have freshly prepared meals if the Cook positions are eliminated, nor will they have updated playgrounds or equipment. However, they also enable Council to deliver centre resources more economically.

This option can be implemented alongside option #1: Refocus priorities of the Children's Centres.

**VIABILITY ASSESSMENT**

**2.1 Increase pre-school enrolment**

This option may not be viable because:
- It is not responsive to the needs of the community
- Pre school demand at the centres is only 29%, not 100% of the waitlist
- It ignores the demand (waitlist) for infant and toddler care, 25% and 46% respectively

**2.2 Salary and Benefit Cuts of 20%**

This option may be viable because:
- It frees up between $270k and $1 million per year (funds for reallocation)
- The CBA does not preclude it (except during negotiations with management), but there is significant labor relations and legal risk.

**2.3 Outsource cooking and meals**

This option may not be viable over the short term because:
- The collective agreement does not allow layoffs for outsourcing
- The work can be outsourced through attrition but this would be a long term approach
- The option to outsource to Sunnyside kitchen may not be cost effective
Initiate Cost Saving Measures

VIABILITY ASSESSMENT

2.4 Increase parent fees

- This option is viable because:
  - It generates between $41k and $164k per year in revenues
  - It maintains current staffing levels and child care spaces in the centres
  - Multiple parents indicated they were willing to pay higher fees for the centres

2.5 Reduce Facility and Capital Expenditures

- This option is viable because:
  - It frees up $25k per year in funds available for reallocation plus a one-time amount of $470k
  - Children at the centres will still have access to existing playgrounds
  - Centre staff will retain 20% of their budget for play equipment

2.6 Reduce Mileage, Meetings and Travel

- This option is viable because:
  - It results in cost savings that are quick wins.
Service Delivery Options

Discontinue Direct Delivery of Children’s Centres

Advantages
- The ROW could serve more families as a system manager. For example, the funding could be reallocated to support capital costs for new licensed spaces.
- The perception of a perceived conflict of interest will reduce (the Region is no longer seen a competitor).
- Region can work with the community to raise the 'quality' of services by possibly directing additional funding to support this initiative.
- There will be significant cost reductions from staff adjustments.
- The centres require significant capital expenditures; that could be prioritized and allocated elsewhere or be used to increase reserves.
- Strengthen the leadership role of the Region as CMSM in the community since operators will no longer perceive the Region to be their direct competitor.
- Community operators could be used to pilot new programs and initiatives.

Challenges
- The Region will have reduced control and flexibility to pilot programs and system level initiatives.
- The Region will have reduced control in developing program responses to emerging needs (e.g., emergency child care as COVID 19 response).
- Loss of high quality child care spaces that provide learning opportunities for students and other community programs/centres.
- Community RECE wage benchmark will decrease, which could impact efforts to professionalize RECEs in Waterloo Region.
- Negative impact on staff because of employment loss and on families and children currently enrolled with the centres.
- Potential loss of child care spaces when there is already a long waitlist in the community for accessing a child care space.
- Fewer spaces in the community to provide service to children with special needs.

Option 3 (Lease the centres to a community operator) and Option 4 (Closure of one or more centres)
Option 3: Lease the centres to community operators

Region of Waterloo
Third Party Review of Children’s Centres
## Option 3

**Lease the centres to community operators**

### Objective

Provide child care services through an alternative service delivery model. The Region retains ownership of the Children Centre facilities, but operation is transferred to a community operator.

KPMG proposes the following actions for option 3:

- Lease all 5 centres to community operators
- Continue to operate as landlord of the facilities
- Support the children and families through the transition

### Impact

All collective bargaining unit obligations and associated cost will flow with the lease agreement to the tenant. The incoming community operator would be required to hire all Children’s Centres staff that are union members at their current salary and benefit levels.

### Benefits

- This model will reduce the conflict of interest perception. Per the stakeholder engagements, the majority of community operators noted inequitable resource allocation between Regional versus non-Regional centres.
- The Region could also become more invested in the success of community operators and foster greater collaboration.
- The community operators will stand at an advantage since they will be staffed with the Region’s well-trained and highly qualified staff.
- The operators will be operating purpose built facilities.
- **Importantly, this option will result in a continued positive experience with parents and children; with minimal operational disruption.**
  - The funding could be reallocated to support capital costs for new licensed spaces.
  - Region can work with the community to raise the ‘quality’ of services by possibly directing additional funding to support this initiative.
  - The centres require significant capital expenditures; that could be prioritized and allocated elsewhere or be used to increase reserves
  - Community operators could be used to pilot new programs and initiatives.
Option 3
Lease the centres to community operators

Risks and Challenges

- **Transferring operations of the Centres may negatively impact affordability, accessibility and inclusion, and quality.** The Region will need to address the concerns of staff and families with due care.
- **Transferring operations would require the operator to take on current Children's Centre staff. The operator may not be able to afford the Region’s compensation levels.**
- Transferring operations may initiate debate on loss of quality at the Region.
- **The community operator may increase parent fees which will marginalize lower-income families from accessing child care if they cannot receive a subsidy.**
- There is a possibility that there are no operators interested in leasing one/all of the centres. The Region might have to provide incentives (for example negotiating nominal rents) to motivate community operators.

Suggested Actions

The Region will need to address concerns from staff and the public with transparency and carefully explain the rationale for transferring operations to a community operator. The Region will need to work with the Union regarding the Collective Bargaining Agreement.

The Region will need to establish clear service level standards, such as enrollment policies to ensure affordability while being responsive to family needs. The lease agreement should clearly define key terms and conditions (e.g. roles and responsibilities, oversight and assessment of service quality)
Option 3: Lease the centres to community operators

Potential Budget Changes

During stakeholder consultations, community operators expressed interest in the opportunity to lease Region-owned children centre facilities.

<table>
<thead>
<tr>
<th>Change in Revenue</th>
<th>$591,386</th>
<th>Potential annual rental income that the Region can choose to negotiate.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$2,056,994</td>
<td>The Region will no longer earn parent fees.</td>
</tr>
<tr>
<td>The Region can potentially earn rental income of $591k per year; however, the Region will no longer generate parent fee income of $2 million per year for a total net decrease in revenue of approximately $1.4 million per year.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in Expenses</th>
<th>$3,096,820</th>
<th>The Region’s annual savings in compensation expenses.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$545,563</td>
<td>Annual savings associated with facilities operations. Such cost would no longer incur.</td>
<td></td>
</tr>
<tr>
<td>$350,083</td>
<td>Depending on negotiated lease terms, the Region could potentially avoid cost associated with Minor Capital Program.</td>
<td></td>
</tr>
<tr>
<td>$0</td>
<td>No changes in Facilities Managed Capital Renewal and Edith MacIntosh Redevelopment cost.</td>
<td></td>
</tr>
<tr>
<td>$403,806</td>
<td>Operating grant issued to the Community Operator.</td>
<td></td>
</tr>
<tr>
<td>$527,094</td>
<td>Fee subsidies issued to Community Operator.</td>
<td></td>
</tr>
<tr>
<td>The Region will pay general operating grant and fee subsidy of $931K to the community operator. The Region will save $3.6 million in compensation and facilities operations. This will result in cost savings of $2.7 million per year. The Region will have cost avoidance of $350K per year in minor program capital.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Option 3: Lease the centres to community operators

Net Impact to Budget

The Region will save $1.3 million annually for this option. In return, 100% of staff is retained*, the children attend purpose built facilities and the conflict of interest perception among community operators is eliminated. The Region can also avoid future minor program capital costs of approximately $350K per year.

(Note: KPMG has assumed no changes in budgeted revenue items of fee subsidy $423k, provincial funding $3.9 million, and levy $678k).

* Assuming the Supervisor position, a non-union position, is also absorbed by the operator.

** For revenue, assuming no changes in fee subsidy revenue, provincial funding and levy.
Option 3: Lease the Centres to community operators

Rental Income and Parent Fees

The Region could choose to negotiate rental fees as an additional revenue source. One the other hand, with leasing the facilities to a community operator, the Region will no longer earn parent fees.

<table>
<thead>
<tr>
<th>Facility Square Feet</th>
<th>Est. Lease Amount (exclude HST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge 8,267</td>
<td>109,668</td>
</tr>
<tr>
<td>Christopher 13,700</td>
<td>136,398</td>
</tr>
<tr>
<td>Kinsmen 8,800</td>
<td>100,914</td>
</tr>
<tr>
<td>Elmira 9,150</td>
<td>150,625</td>
</tr>
<tr>
<td>Edith MacIntosh 6,542</td>
<td>93,781</td>
</tr>
<tr>
<td><strong>Total</strong> 46,459</td>
<td><strong>$591,386</strong></td>
</tr>
</tbody>
</table>

*Note: Elmira lease is based on actual. Other Centres’ lease amounts are based on 2020 budget of 7914600 Facilities Rent account.*

<table>
<thead>
<tr>
<th>2017 Actuals</th>
<th>2018 Actuals</th>
<th>2019 Actuals</th>
<th>3 Year Average</th>
<th>2020 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge 271,976</td>
<td>291,792</td>
<td>286,243</td>
<td>283,338</td>
<td>404,514</td>
</tr>
<tr>
<td>Christopher 275,899</td>
<td>293,280</td>
<td>308,931</td>
<td>292,703</td>
<td>389,076</td>
</tr>
<tr>
<td>Kinsmen 217,024</td>
<td>231,075</td>
<td>237,473</td>
<td>228,524</td>
<td>404,514</td>
</tr>
<tr>
<td>Elmira 400,819</td>
<td>320,261</td>
<td>420,042</td>
<td>380,374</td>
<td>454,376</td>
</tr>
<tr>
<td>Edith MacIntosh 269,729</td>
<td>261,561</td>
<td>237,076</td>
<td>256,122</td>
<td>404,514</td>
</tr>
<tr>
<td><strong>Total</strong> $1,354,891</td>
<td>$1,497,750</td>
<td>$1,470,542</td>
<td>$1,441,061</td>
<td>$2,056,994</td>
</tr>
</tbody>
</table>

*Sources*
1. Centre Budgets and Actuals

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Option 3: Lease the Centres to community operators

Facility Operations

Facilities operations are intercompany cost determined by Facilities Management Services to run the Children’s Centres buildings (i.e. utilities, snow removal, repairs and maintenance, etc.). The community operator, as a tenant, would generally be responsible for such facility operation costs.

<table>
<thead>
<tr>
<th>Facilities Operations</th>
<th>7914600 Facilities Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017 Actuals</td>
</tr>
<tr>
<td>Cambridge</td>
<td>91,648</td>
</tr>
<tr>
<td>Christopher</td>
<td>113,752</td>
</tr>
<tr>
<td>Kinsmen</td>
<td>96,638</td>
</tr>
<tr>
<td>Elmira</td>
<td>103,285</td>
</tr>
<tr>
<td>Edith MacIntosh</td>
<td>67,835</td>
</tr>
<tr>
<td>Program Costs</td>
<td>8,828</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$481,986</strong></td>
</tr>
</tbody>
</table>

**Note**
- Other Facilities Management Services intercompany expense items not included.
- Elmira school board lease payment is recorded in 7914600 Facilities Rent account under Elmira Children’s Centre and Elmira Family Centre DDUs.

$545,563
Annual savings associated with facilities operations. Such cost would no longer incur.

Sources
1. Centre Budgets and Actuals
Option 3: Lease the Centres to community operators

Capital Expenditures

The Region could save approximately $350k per year in Children’s Centre minor program capital by leasing the operations of the centres. Assuming no changes to the current 10-year capital plan, there will be no changes for the Region of Waterloo in terms of facilities managed capital renewal and redevelopment cost for Edith MacIntosh centre.

<table>
<thead>
<tr>
<th>EXPENDITURE</th>
<th>Total (2020-2029) (in $000s)</th>
<th>Landlord Responsibility</th>
<th>Tenant Responsibility Divided over 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Area Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>77014 Edith MacIntosh Children’s Centre Redevel</td>
<td>6,000</td>
<td>$350,083</td>
<td></td>
</tr>
<tr>
<td>77042 Minor Program Capital Children’s Services</td>
<td>3,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Program Area Capital</td>
<td>9,501</td>
<td>Landlord Responsibility</td>
<td></td>
</tr>
<tr>
<td>Facilities Managed Capital Renewal</td>
<td>1,032</td>
<td></td>
<td></td>
</tr>
<tr>
<td>71020 Kinsmen Children Centre Building Renewal</td>
<td>509</td>
<td>$0</td>
<td>No changes in Facilities Managed Capital Renewal and Edith MacIntosh Redevelopment cost</td>
</tr>
<tr>
<td>71021 Christopher Children Centre Building Renewal</td>
<td>789</td>
<td></td>
<td></td>
</tr>
<tr>
<td>71022 Cambridge Children Centre Building Renewal</td>
<td>122</td>
<td></td>
<td></td>
</tr>
<tr>
<td>71023 Elmira Children Centre Building Renewal</td>
<td>85</td>
<td></td>
<td></td>
</tr>
<tr>
<td>71024 Edith Mac Children Centre Building Renewal</td>
<td>2,646</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Facilities Managed Capital Renewal</td>
<td>2,646</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL EXPENDITURE</td>
<td>12,147</td>
<td>Landlord Responsibility</td>
<td></td>
</tr>
<tr>
<td>FUNDING &amp; FINANCING</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves and Reserve Funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3980065 Facility Lifecycle Reserve</td>
<td>2,646</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3933300 Children’s Services Capital Reserve</td>
<td>3,501</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debentures</td>
<td>6,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL FUNDING &amp; FINANCING</td>
<td>12,147</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources:
1. Children Services Capital Reports

Note: 71023 Elmira Children Centre Building Renewal are carrying costs of the old Elmira Children’s Centre building, which was designated as a surplus building in 2016.
Option 3: Lease the Centres to community operators

Compensation and Staffing Positions

All collective bargaining unit obligations and associated cost will flow with the lease agreement to the tenant. The incoming community operator would be required to hire all Children’s Centres staff that are union members at their current salary and benefit levels. **A community operator will not be able to afford the Region’s compensation levels and will need the Region’s financial support to meet union obligations.** Non-union members would be entitled to termination and severance pay if the community operator chooses not to hire them. The unionized staff is bound by the collective bargaining agreement for an indefinite period; along with any additional staff the operator chooses to hire.

<table>
<thead>
<tr>
<th>Region Salaries and Benefits</th>
<th>2017 Actuals</th>
<th>2018 Actuals</th>
<th>2019 Actuals</th>
<th>3 Year Average</th>
<th>2020 FTE</th>
<th>2020 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge</td>
<td>1,108,593</td>
<td>1,177,835</td>
<td>1,088,767</td>
<td>1,125,065</td>
<td>11.2</td>
<td>1,048,550</td>
</tr>
<tr>
<td>Christopher</td>
<td>1,199,304</td>
<td>1,211,302</td>
<td>1,334,139</td>
<td>1,248,248</td>
<td>14.5</td>
<td>1,225,801</td>
</tr>
<tr>
<td>Kinsmen</td>
<td>1,114,824</td>
<td>1,139,858</td>
<td>1,148,353</td>
<td>1,134,345</td>
<td>11.5</td>
<td>1,048,550</td>
</tr>
<tr>
<td>Elmira</td>
<td>1,003,380</td>
<td>1,214,372</td>
<td>1,283,581</td>
<td>1,167,111</td>
<td>14.8</td>
<td>1,387,942</td>
</tr>
<tr>
<td>Edith MacIntosh</td>
<td>930,677</td>
<td>952,651</td>
<td>955,149</td>
<td>946,159</td>
<td>9.5</td>
<td>818,674</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,356,778</strong></td>
<td><strong>$5,696,018</strong></td>
<td><strong>$5,809,989</strong></td>
<td><strong>$5,620,928</strong></td>
<td><strong>61.6</strong></td>
<td><strong>$5,529,517</strong></td>
</tr>
</tbody>
</table>

| Program Costs               | 358,826      | 228,073      | 172,964      | 253,288        | 1.0     | 164,071     |

**Note**
- Includes compensation of 5 supervisors who are non-union members.
- Compensation related to Program Costs are central management and administration of Children’s Centres.

<table>
<thead>
<tr>
<th>Estimated Compensation Community Operators Can Afford</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FTEs</strong></td>
</tr>
<tr>
<td>Supervisors</td>
</tr>
<tr>
<td>RECEs</td>
</tr>
<tr>
<td>Cooks</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

**Note**
- Hourly Rate based on 2018 ROW salary survey average of non-profit, for-profit, and Children’s Centre
- Salary = FTE x hourly rate x 35 hour/week for 52 weeks
- Benefit cost at 30% of salary

The Region pays $2,432,697 in compensation as financial support to meet union obligations.

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Sources:
1. Centre Budgets and Actuals
2. 2020 FTE Planning

$3,096,820
The Region’s annual savings in compensation expenses.
Option 3: Lease the Centres to community operators

Fee Subsidies and Operating Grant

The Region will provide the General Operating Grant as well as Fee Subsidies to the Community Operator.

<table>
<thead>
<tr>
<th>General Operating Grant</th>
<th>Grant / FTE</th>
<th>FTE</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$6,513</td>
<td>62</td>
<td>$403,806</td>
</tr>
</tbody>
</table>

Operating grant issued to the Community Operator

<table>
<thead>
<tr>
<th>Fee Subsidy*</th>
<th>Fee Subsidy / Child</th>
<th>Operating Capacity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$2,043</td>
<td>258</td>
<td>$527,094</td>
</tr>
</tbody>
</table>

Fee subsidies issued to the Community Operator

*This assumes fee paying parents with the new operator will be the same as with the Region’s Centres. The fee subsidy/child of $2,043 is based on the projected 2020 fee subsidy revenue of $423,000 / 207.
Option 3
Lease the Centres to Community Operators

Leasing the centres is a viable option as it would lower costs for the Region.

Assessment of this option based on CMSM vision:

1. **Availability** - The community operator may be able to offer spaces to families of the current Centres. The number of available spaces could increase to the Centre’s licensed capacity.
2. **Affordability** - Community operators operate a full cost recovery model; hence, parent fees may increase making the Centres less affordable for families. This is subject to the amount of grants and funding the operator can access.
3. **Accessibility & Inclusion** - The level of support for children with special needs may decrease because not all operators offer the Region’s service level, which is often beyond resources through Special Needs Resourcing.
4. **Accountability & Quality** - Transferring the operations of the Children’s Centres may reduce service quality because many community operators do not require all staff to be RECEs and may offer lower wages and benefits (both linked with high quality child care in the research).

**VIABILITY ASSESSMENT**

This option is viable because:

The Region will save $1.3 million/year in operations with annual cost avoidance of $350k. In return, 100% of staff will be retained, the children attend purpose built facilities and it eliminates the conflict of interest perception within the community.
Option 4: Closure of one or more centres

Region of Waterloo
Third Party Review of Children’s Centres
**Objective**
Close one or more of the Region’s directly operated child care centres to achieve cost savings and cost avoidance.

KPMG proposes the following actions for option 4:
- Close all 5 directly-operated child care centres in September, 2022
- Pay severance of between $4.7M and $6.4M to unionized and non-unionized employees in August, 2022
- Sell the surplus buildings or re-purpose for use within the Region, e.g. community housing
- Provide an incentive to centre staff to prevent early loss and turnover

**Impact**
The Region can save $7.1M per year in operating costs and avoid paying $615K per year in capital costs by closing all 5 centres.
The Region can also free up $4.3M per year in Provincial Funding for re-investment into the child care sector; and $678K in levy funding for re-prioritization.
Finally, the Region can also avoid paying $6.0M to re-develop the Edith MacIntosh Children’s Centre (a one-time cost avoidance). These are significant cost savings for a discretionary service, considering there continues to be a risk that the Province may choose to follow through on some/all announced funding changes.

**Benefits**
Closing one or more centres will also help the Region to:
- The Region can provide funding support for up to 791 licensed spaces with community operators. This funding is for a portion of the costs; the majority of funding for community operated spaces comes from parent fees.
- Manage resources efficiently – which is particularly important in periods of financial stress
- Realize revenue from the sale of the capital assets (buildings)
- Become more invested in the success of community operators and foster greater collaboration
- Enhance its system-manager role, e.g. by providing more incentives to operators, solving problems with the OneList system (ongoing since 2016), promoting quality child care across the Region, identifying the true supply of Special Needs resources, addressing the industry-wide shortage of qualified ECEs, and promoting access to the waitlist for vulnerable populations and newcomers.
- Closing the centres will possibly have little impact on the Region’s position as role-model since other operators cannot replicate its salaries, facility and high operating costs. Four of the five centres have increasingly served higher income families since 2017 and the new Elmira Centre is located in a high income community.
- The ROW could serve more families as a system manager. For example, the levy funding could be reallocated to support capital costs for new licensed spaces.
- The perception of a perceived conflict of interest will reduce (the Region is no longer seen a competitor).
- Region can work with the community to raise the ‘quality’ of services by possibly directing additional funding to support this initiative.
- The centres require significant capital expenditures; that could be prioritized and allocated elsewhere or be used to increase reserves
- Community operators could be used to pilot new programs and initiatives.

Source
1. Community Services Agenda
Option 4: Closure of One or More Centres

Closure of One or More Centres

Risks and Challenges

- Closing all centres will reduce quality for 5% of licensed spaces in the Region (248 spaces) with the loss of salaries, the High-Scope program, professional training and development opportunities, freshly prepared meals, and significant ongoing improvements to rooms, activity spaces, play equipment and playgrounds.
- Closing one or more centres will cause a reaction from parents and invite negative media coverage. There is a risk of reputational damage for the Region.
- Some children requiring Special Needs supports may not find spaces with other operators according to interviews with former operators.
- 62 FTEs will be laid-off by closing all the centres. Some staff may not find employment either through the Collective Agreement (bumping) or with another operator.
- Bumping through the Collective Agreement will trigger a small re-organization in the organization. Work will be disrupted in other departments.
- Layoffs will impact labour relations between the Region and Union, and will cause emotional strain on parents and staff.
- The community RECE wage benchmark will decrease, which could impact efforts to professionalize RECEs in Waterloo Region.
- The Region will have reduced control in developing program responses to emerging needs (e.g., emergency child care as COVID-19 response).
- Turnover may increase between the decision to close the centres and the actual closing date – leading to staffing challenges at the centres.
- Parents may not be able to find licensed child care spaces in geographies with shortages.
- Parents may be in a position to take a space at a location that is less desirable – i.e. outside of their range to travel. Most people want a space either close to home, or close to work.

Suggested Actions

The Region will need to:

- Communicate the pending closures to parents and staff with transparency and clarity.
- Decide on closure dates.
- Engage the Union, human resources and Legal Counsel to discuss layoffs, severance packages, and employment transfer through the Collective Agreement (CBA).
- Arrange the sale of surplus buildings (or internal use). Next steps and use of the Elmira Children’s Centre space would be determined by the Waterloo Region District School Board in accordance with the Joint Use agreement.

Note: If done at once, closing the centres at the same time would trigger the mass layoff provisions under the Employee Standards Act (no additional cost, but more paperwork). This could be avoided if the centres are closed four weeks apart.
Yearly Savings and Impact to the Levy

Region of Waterloo
Third Party Review of Children’s Centres
Option 4: Closure of One or More Centres

Total Year Cost Savings/Avoidance with Closure

The Region can save approximately $7.1M annually before accounting for the loss of parent fees by closing the Children’s Centres. Based on the Provincial and Regional funding used to support Centre costs, $4.3M in provincial funding would be available to reinvest in the child care system and $678K in levy funding to reinvest in the child care system or other Regional priorities. Finally, the Region can avoid re-developing the Edith MacIntosh centre at a cost of $6.0M and also avoid yearly capital costs of approximately $615K (levy funding).

Notes:
1- Figures for operating costs, provincial funding and levy funding were calculated using the 2020 budget; figures for capital costs were based on the Children’s Centres 10 year capital forecast.
2- KPMG has assumed that Provincial Funding will stay constant despite closing the 5 centres.
3- Total savings per year do not include anticipated closing costs such as severance and proceeds from the potential sale of buildings
4- Parent fees and Elmira Rental Revenues have been excluded from the calculations.

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Option 4: Closure of One or More Centres

Alternative Uses for Provincial & Levy Funding

01 Expand Child Care Spaces

02 Increase Operating Capacity

03 Provide Fee Subsidy

04 Provide Other Supports to Operators

05 Provide Fee Reductions

06 Increase Reserves or Reduce Taxes

Re-direct funding to help non-profit and for-profit operators increasing physical spacing in their facilities through capital projects. This objective is already part of Children’s Services Growth and Expansion Strategy.

Provide funding support for up to 791 licensed spaces by re-investing funding. (Note: this figure represents the cost to Children’s Services, the majority of funding for community operated spaces comes from parent fees. Actual spaces may be lower due to many factors.

Provide fee subsidy to 350 children by re-investing funding into the Fee Subsidy program. (Note: this figure is not relevant since the Region currently has no Fee Subsidy waitlist – but is provided as a reference to highlight purchasing power).

Offer various incentives or supports to community operators, for example, wage enhancement, fee reductions etc.

Reinvestment of $974k in Provincial and/or Regional Levy funding into increasing affordability would reduce all centre-based infant fees by $10 per day (applicable to 373 infants in the Region).

Transfer $677K in levy funding to reserves for future years or reduce proposed increases in taxation across the tax base.

Sources:
1- Reinvestment Calculations
Option 4: Closure of One or More Centres

Existing Space in the Region

The Region can re-invest Provincial and Levy funding to help operators increase their operating capacity. As of the end of 2019, there are currently 503 unused licensed spaces amongst community operators within the Region.

Unused licensed capacity

= 503 spaces

There are currently 503 unused licensed spaces in the Region (in licensed child care centres). By re-investing Provincial and levy funding, the Region can start to close the gap between operating and total licensed capacity.

With divestiture, it appears the Region can close the gap since Provincial and levy funding can purchase 791 spaces. However, this is unlikely due to multiple factors, for example, some operators may not want to operate at 100% of licensed capacity.

Operators would need to purchase or construct new facilities after attempting to close this gap as far as possible and then the remainder of funding could be re-invested.

Further analysis is required to determine how much the gap can be closed using Provincial and Levy funding.
Option 4: Closure of One or More Centres
Sources of Cost Savings/Avoidance

The Region can save approximately $7.1M before accounting for lost parent fees by closing the Children’s Centres and can avoid future capital costs of approximately $615K (levy funding). Based on the Provincial and Regional funding used to support Centre costs, $4.3M in provincial funding would be available to reinvest in the child care system and $678K in levy funding to reinvest in the child care system or other Regional priorities.

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yearly Provincial Funding for re-investment. (Source: 2020 Centres Operating Budget)</td>
<td>$4,349,366</td>
<td>Yearly cost savings for all 5 centres and program costs (Source: 2020 Centres Operating Budget)</td>
</tr>
<tr>
<td>Yearly Levy savings for re-investment. (Source: 2020 Centres Operating Budget)</td>
<td>$677,612</td>
<td>Yearly cost avoidance in Capital Costs (Source: Children Services Capital Report)</td>
</tr>
<tr>
<td>Yearly cost avoidance in Capital Costs (Source: Children Services Capital Report)</td>
<td>$614,704</td>
<td></td>
</tr>
<tr>
<td>Yearly cost savings in operating costs for all 5 centres and program costs (Source: 2020 Centres Operating Budget)</td>
<td>$7,095,522</td>
<td></td>
</tr>
</tbody>
</table>

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Option 4: Closure of One or More Centres

Sources of Cost Savings

The source of cost savings are derived from 2020 Centres Operating Budget shown below.

<table>
<thead>
<tr>
<th>Centre</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge</td>
<td>1,249,876</td>
</tr>
<tr>
<td>Christopher</td>
<td>1,471,116</td>
</tr>
<tr>
<td>Edith MacIntosh</td>
<td>993,525</td>
</tr>
<tr>
<td>Elmira</td>
<td>1,576,696</td>
</tr>
<tr>
<td>Kinsmen</td>
<td>1,249,138</td>
</tr>
<tr>
<td>Program Costs</td>
<td>555,171</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,095,522</strong></td>
</tr>
</tbody>
</table>

$7,095,522
Yearly cost savings in operating costs for all 5 centres and program costs (Source: 2020 Centres Operating Budget).

Sources
1. Centre Budgets and Actuals
Option 4: Closure of One or More Centres

Sources of Funds Available for Re-Investment

The source of Provincial Funding available for re-investment is shown below.

<table>
<thead>
<tr>
<th>Centre</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge</td>
<td>760,278</td>
</tr>
<tr>
<td>Christopher</td>
<td>980,137</td>
</tr>
<tr>
<td>Edith MacIntosh</td>
<td>478,052</td>
</tr>
<tr>
<td>Elmira</td>
<td>904,598</td>
</tr>
<tr>
<td>Kinsmen</td>
<td>801,701</td>
</tr>
<tr>
<td>Program Costs</td>
<td>424,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,349,366</strong></td>
</tr>
</tbody>
</table>

Sources:
1. Centre Budgets and Actuals

$4,349,366 Yearly Provincial Funding for re-investment. (Source: 2020 Centres Operating Budget).
Option 4: Closure of One or More Centres

Sources of Funds Available for Re-Investment

The source of Levy Funding available for re-investment is shown below.

<table>
<thead>
<tr>
<th>Centre</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge</td>
<td>85,084</td>
</tr>
<tr>
<td>Christopher</td>
<td>101,903</td>
</tr>
<tr>
<td>Edith MacIntosh</td>
<td>110,959</td>
</tr>
<tr>
<td>Elmira</td>
<td>217,722</td>
</tr>
<tr>
<td>Kinsmen</td>
<td>42,923</td>
</tr>
<tr>
<td>Program Costs</td>
<td>119,021</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>677,612</strong></td>
</tr>
</tbody>
</table>

$677,612
Yearly Levy Funding for re-investment.
(Source: 2020 Centres Operating Budget).

Sources
1. Centre Budgets and Actuals
Option 4: Closure of One or More Centres

Sources of Cost Avoidance

The remaining two sources of total savings per year are derived from the *Children Services Capital Report* (in 000s). This report shows the forecasted capital expenditures for the years 2020 to 2029.

<table>
<thead>
<tr>
<th>EXPENDITURE</th>
<th>Total (2020)</th>
<th>2029</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Area Capital</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>77014 Edith Macintosh Children's Centre Redevelop</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>77042 Minor Program Capital Children's Services</td>
<td>9,501</td>
<td></td>
</tr>
<tr>
<td>Total Program Area Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilities Managed Capital Renewal</td>
<td>1,032</td>
<td></td>
</tr>
<tr>
<td>71020 Kinsmen Children Centre Building Renewal</td>
<td>609</td>
<td></td>
</tr>
<tr>
<td>71021 Christopher Children Centre Building Renewal</td>
<td>789</td>
<td></td>
</tr>
<tr>
<td>71022 Cambridge Children Centre Building Renewal</td>
<td>122</td>
<td></td>
</tr>
<tr>
<td>71023 Elmira Children Centre Building Renewal</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>71024 Edith Mac Children Centre Building Renewal</td>
<td>2,646</td>
<td></td>
</tr>
<tr>
<td>Total Facilities Managed Capital Renewal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL EXPENDITURE</td>
<td>12,147</td>
<td></td>
</tr>
</tbody>
</table>

| FUNDING & FINANCING                         |             |       |
| Reserves and Reserve Funds                  | 2,646        |       |
| 3980065 Facility Lifecycle Reserve         | 3,501        |       |
| 3983300 Children's Services Capital Reserve | 6,000        |       |
| Debentures                                  |              |       |
| TOTAL FUNDING & FINANCING                   | 12,147       |       |

- Divided over 10 years

$614,704

Yearly cost avoidance in Capital Costs
(Source: *Children Services Capital Report*).

Sources:
1. Children Services Capital Reports
Closing the Centres

Region of Waterloo
Third Party Review of Children’s Centres
Option 4: Closure of One or More Centres

Closing less than 5 Centres: Yearly Levy Savings

The Region may wish to consider closing the centres in the following order should it choose to close less than 5 centres. This ordering is based on a scoring methodology shown in the next slide. Yearly and cumulative levy savings per year are shown in the table below.

The Region should consider closing the centres in the following order should it desire to close less than 5 centres, in which case the Elmira Children’s Centre would be closed first, leading to $137K in levy savings per year.
**Option 4: Closure of One or More Centres**

**Closing less than 5 Centres**

To determine the most appropriate candidates for closure, the centres were rank-ordered using the table below whereby each centre received points in the following categories: (1) levy per space, (2) the percentage (%) of children receiving subsidy, (3) the supply of licensed spaces with other operators in the ADA*, (4) the number of children currently requiring Special Needs supports, (5) the average median family income per census tract, and (6) the number of spaces that could be purchased in the community if funds were re-allocated. Centres with low scores should be closed first.

<table>
<thead>
<tr>
<th>Closure</th>
<th>Centre</th>
<th>Levy/Space</th>
<th>Families On Subsidy (%)</th>
<th>Other Licensed Spaces in the ADA</th>
<th>Children Requiring Special Needs Supports</th>
<th>Avg. Median Family Income per ADA</th>
<th>Spaces purchased in the community</th>
<th>Waitlist</th>
<th>Total Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>Elmira</td>
<td>4,933</td>
<td>8%</td>
<td>64</td>
<td>4</td>
<td>92,240</td>
<td>105</td>
<td>144</td>
<td>15</td>
</tr>
<tr>
<td>2nd</td>
<td>Kinsmen</td>
<td>5,674</td>
<td>37%</td>
<td>90</td>
<td>6</td>
<td>82,829</td>
<td>102</td>
<td>71</td>
<td>17</td>
</tr>
<tr>
<td>3rd</td>
<td>Cambridge</td>
<td>5,303</td>
<td>32%</td>
<td>16</td>
<td>18</td>
<td>81,467</td>
<td>102</td>
<td>94</td>
<td>23</td>
</tr>
<tr>
<td>4th</td>
<td>Edith MacIntosh</td>
<td>5,637</td>
<td>11%</td>
<td>39</td>
<td>5</td>
<td>67,094</td>
<td>85</td>
<td>231</td>
<td>24</td>
</tr>
<tr>
<td>5th</td>
<td>Christopher</td>
<td>5,124</td>
<td>35%</td>
<td>0</td>
<td>12</td>
<td>71,791</td>
<td>114</td>
<td>199</td>
<td>26</td>
</tr>
</tbody>
</table>

Notes:
1 – The census tract is represented by the Aggregate Dissemination Area (ADA) for the 2016 Census

The centres were rank ordered to determine which ones should be closed first. The Region may wish to consider these metrics and scores should it desire to close less than 5 centres. A weighed approach may also be considered to re-calculate the scores.
Option 4: Closure of One or More Centres

Cost of Severance

The Region will need to pay a maximum, one-time severance cost of between $4.7M to $6.4M assuming closure of all centres in September, 2022. This estimate includes the following assumptions:

- All unionized employees take a voluntary exit option (VEO) as opposed to bumping into new roles
- Unionized employees receive severance of 1 month per year of service
- Non-Unionized employees receive severance of 4 weeks per year of service (pro-rated)
- Severance is based on compensation plus benefits
- Employment is fixed (no changes) until August, 2022
- Cost of living adjustments of 1.7% until 2022

<table>
<thead>
<tr>
<th>Position</th>
<th>Employees</th>
<th>Combined Years of Service</th>
<th>Severance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>102 (62 FTEs)</td>
<td>878</td>
<td>$4.7M to $6.4M</td>
</tr>
</tbody>
</table>

Severance would be the highest cost for this option. Other costs for consideration include:

- Administrative transition costs – for example professional services to manage the transition, HR project management costs to oversee and coordinate staff supports etc.
- Program transition costs – for example Special Needs transition supports, incentives to staff to stay through transition etc.

Sources
Seniority List – Centres Staff
Conference Board of Canada, Quick Take (September 2020)
Option 4: Closure of One or More Centres

Real Estate Considerations

The Region will need to decide how to use the 4 Region-owned centres should it decide to divest of its role in directly-operated child care. Currently each centre pays a portion of the facility maintenance costs. The centres include the Cambridge, Christopher, Kirs Men and Edith MacIntosh Children’s Centres.

Dispose the properties

The Region can consider disposing each of the four properties.

Repurpose the properties

The properties can be repurposed to address other Regional priorities.

Lease to Community Operators

The Region can consider leasing the properties to community operators.

A property appraisal project is currently underway for the centres.

Based on the information provided, for example, the Cambridge centre is specific to the current use, and as such, significant costs would be required to adapt/modify the building for alternate uses.

The buildings can be used to address other priorities, for example, social housing.

The Region can also consider renting out the properties leading to revenue generation.

Explore the option of leasing the centres.

Note: There is no agreed upon standard for when the potential succession right expires. Whether these rights apply is explored on a case-by-case basis that takes into account a large number of factors in determining whether they apply or not.

Notes:
1. The Region still owns the old Elmira building and has not been able to find a suitable buyer.
Closure of one or more centres

The closure of one or more centres is a viable option. The Region will need to develop a thorough stakeholder consultation and implementation plan for successful execution of this option.

Assessment of this option based on CMSM vision:

1. **Availability** - Closing one or more centres will reduce the number of licensed spaces in the Region. Other operators may be able to accommodate the 207 children by increasing their operating capacity, according to interviews with former operators. Closing the centres will also enable the Region to better support the development of community operators and foster collaboration.

2. **Affordability** - Closing one or more centres will require parents of toddlers and pre-school children to pay higher fees (the Region offers lower fees compared to other operators, except for infant care).

3. **Accessibility & Inclusion** - According to former operators, closing one or more centres will reduce accessibility and inclusion in the Region since it provides more care to vulnerable populations compared with other operators. Moreover, there is a risk that some children requiring Special Needs supports at the five centres may not find alternative spaces in the community.

4. **Accountability & Quality** - Closing one or more centres will possibly result in reduced quality for 5% of licensed spaces in the region. However, closures will help the Region to manage resources efficiently and promote fiscal responsibility which is particularly important in the wake of COVID-19. The option will also enable the Region to increase its leadership role as a system-builder, not an operator. Finally, closing the centres will slightly decrease Provincial utilization funding in future years (based on Regional contributions to child care in excess of minimum cost share requirements).

**VIABILITY ASSESSMENT**

This option is viable because:

- It frees up $678K per year in levy funding (available for reallocation)
- It saves $7.1M per year in operating costs
- It avoids $615K per year in capital costs
- It frees up $4.3M per year in Provincial Funding (available for reallocation)
- The Region can provide funding to support between 350 and 791 licensed spaces in community programs
- The CBA does not preclude mass layoffs although the Region will need to pay a one-time maximum severance of between $4.7M to $6.4M
Option 5: Closure of one centre with re-deployment of staff

Region of Waterloo
Third Party Review of Children’s Centres
Option 5: Closure of One Centre and Re-Deployment of Staff

Closure of One Centre with Re-Deployment of Staff

<table>
<thead>
<tr>
<th>Objective</th>
<th>Close one of the Region’s directly operated child care centres to achieve cost savings with minimal staffing implications.</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPMG proposes the following actions for option 5:</td>
<td></td>
</tr>
<tr>
<td>• Close the Kinsmen Children’s Centre*</td>
<td></td>
</tr>
<tr>
<td>• Re-deploy all staff to the Cambridge, Christopher and Elmira centres</td>
<td></td>
</tr>
<tr>
<td>• Enroll more children in these 3 centres</td>
<td></td>
</tr>
<tr>
<td>• Perform two layoffs up to a maximum cost of $188K</td>
<td></td>
</tr>
<tr>
<td>• Sell the surplus building or re-purpose for use within the Region, e.g. community housing</td>
<td></td>
</tr>
</tbody>
</table>

According to KPMG’s scoring methodology, the Elmira Children’s Centre should be closed first. However, KPMG recommends closing the Kinsmen Centre for option #5 because it requires no layoffs to RECEs; whereas closing the Elmira Centre would result in an layoffs of 3.33 FTEs. Moreover, the Kinsmen Centre was also scored to be closed second according to KPMG’s scoring methodology.

Impact

The Region can save $118K per year in operating costs and avoid paying $174K per year in capital costs by closing the Kinsmen centre and re-deploying all teachers to the Cambridge, Christopher and Elmira centres. The Region can also free up $18K in levy funding for re-prioritization. The Region will need to pay to one-time severance cost up to a maximum of $188K assuming closure of the Kinsmen Centre in September, 2021. This estimate includes the following assumptions:

• All unionized employees take a voluntary exit option (VEO) as opposed to bumping into new roles
• Unionized employees receive severance of 1 month per year of service
• Non-Unionized employees receive severance of 4 weeks per year of service (pro-rated)
• Severance is based on compensation plus benefits
• Employment is fixed (no changes) until August, 2021

Benefits

Closing the centre will also enable the Region to:

• Operate all remaining 4 centres at 100% licensed capacity
• Realize revenue from the sale of the Kinsmen facility or re-purpose it for use within the Region
• The Region can scale down yet continue to its involvement in directly operated child care
• The parents and children will continue to receive high quality and positive outcomes through the High Scope curriculum and purpose built facilities

The Region can continue to provide direct delivery of children centres resulting in the following benefits:

• The Region can use the centres to pilot program and system level initiatives prior to rolling it out to the community.
• Quickly respond to emerging needs (COVID-19 response).
• Serve as an example of high quality child care to the community.
• Professionalization of RECEs through competitive wages used as a benchmark by community operators.
• Region Centres have low staff turnover and professional training. These are both associated in the research with better program outcomes.
• The centres are purpose built and designed for child care needs.

Source

1. Community Services Agenda
Option 5: Closure of One Centre and Re-Deployment of Staff

Risks and Challenges

• Closing one centre will reduce the number of Regional licensed spaces by 52.

• Closing one centre will cause a reaction from parents and invite negative media coverage. There is a risk of reputational damage for the Region.

• There are currently 6 children requiring Special Needs supports who attend the Kinsmen centre – they may not be able to find spaces with other operators after closure, according to interviews with former operators.

• 37% of children at the Kinsmen centre come from families requiring subsidies – the most among all Regionally-owned centres. Once these spaces are re-allocated to the Cambridge, Christopher and Elmira centres, there is a risk that they will become more inaccessible to families requiring subsidy, particularly in Elmira where only 8% of children attending the centre come from families requiring subsidy.

• Total severance is estimated to a maximum of $188K for two positions.

• Adding more licensed spaces to the Cambridge, Christopher and Elmira centres may require capital expenditures to re-develop the interior spaces for children.

• The teachers, all of whom are eligible for transfer to another centre, may not want the positions if they are too far from their home or cause logistical complications with their schedules. Some teachers may request severance instead of transfer in which case the Region would need to incur additional severance and hiring costs.

Suggested Actions

The Region will need to:

• Decide on a closure date and send necessary communications to parents and staff with transparency and clarity.

• Engage the Union, Human Resources and Legal Counsel to discuss layoffs, severance packages, and potential employment transfer through the CBA.

• Enroll children to fill 38 spaces at the Cambridge, Christopher and Elmira centres.

• Arrange for the sale of the surplus building or re-purpose it for internal use.
Option 5: Closure of One Centre and Re-Deployment of Staff

Total Cost Savings/Avoidance with Closure

The Region can save approximately $118K annually by closing the Kinsmen Children’s Centre. The Region can also avoid future capital costs of approximately $174K per year (levy funding). $18K in yearly levy funding would be available for re-investment into the child care system or other regional priorities. (Note: KPMG has assumed that all Provincial Funding, approximately $870K per year, would be re-directed towards the Cambridge, Christopher and Elmira centres).

Notes:
1- Figures for operating costs, provincial funding and levy funding were calculated using a 3 year average; figures for capital costs were based on the Children’s Centres 10 year capital forecast.
2- KPMG has assumed that Provincial Funding will stay constant despite closing the centre.
3- Total savings per year do not include anticipated closing costs such as severance and proceeds from the potential sale of buildings.
Option 5: Closure of One Centre and Re-Deployment of Staff

Implementation Plan

The Region will need to consider the following key points should it decide to choose option #5.

1. **Teachers**
   - Transfer all 9.6 teacher FTEs from Kinsmen to the Cambridge, Christopher and Elmira centres.

2. **Layoffs**
   - Eliminate the Centre Supervisor and Cook positions for the Kinsmen Children’s Centre, and pay severances.

3. **Children**
   - Enroll additional children in the Cambridge, Christopher and Elmira centres with regard for children requiring Special Needs supports and fee subsidies.

4. **Surplus Building**
   - Decide to sell the surplus building or re-purpose for internal use within the Region.

The Region will need to transfer 9.6 RECEs, layoff a Supervisor and a Cook, enroll 38 more children and decide how to use the surplus building for option #5.
The Region can achieve 100% of licensed capacity by selecting option #5 with minimal impact to the staffing model. This option allows the Region to avoid all capital costs associated with the Kinsmen Centre, and re-invest $870K per year into the Child Care System.

<table>
<thead>
<tr>
<th>Centre</th>
<th>Occupational Capacity/Licensed Capacity</th>
<th>Increase in Spacing</th>
<th>NEW* Operating Capacity</th>
<th>Current FTE Count</th>
<th>Increase in RECEs</th>
<th>Increase in Cook Duties</th>
<th>NEW* FTE Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elmira</td>
<td>45 / 62</td>
<td>+17</td>
<td>62 / 62</td>
<td>14.79</td>
<td>4.3</td>
<td>0.38</td>
<td>19.47</td>
</tr>
<tr>
<td>Cambridge</td>
<td>42 / 52</td>
<td>+10</td>
<td>52 / 52</td>
<td>11.22</td>
<td>2.5</td>
<td>0.23</td>
<td>13.95</td>
</tr>
<tr>
<td>Christopher</td>
<td>47 / 58</td>
<td>+11</td>
<td>58 / 58</td>
<td>14.54</td>
<td>2.8</td>
<td>0.25</td>
<td>17.59</td>
</tr>
<tr>
<td>Edith MacIntosh</td>
<td>34 / 34</td>
<td>-</td>
<td>34 / 34</td>
<td>9.54</td>
<td>-</td>
<td>-</td>
<td>9.54</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>168 / 206</strong></td>
<td><strong>38</strong></td>
<td><strong>206 / 206</strong></td>
<td><strong>50.09</strong></td>
<td><strong>9.6</strong></td>
<td><strong>0.86</strong></td>
<td><strong>60.55</strong></td>
</tr>
</tbody>
</table>

Notes:
1 – The census tract is represented by the Aggregate Dissemination Area (ADA) for the 2016 Census.
Closure of one centre with re-deployment of staff

The closure of the Kinsmen centre is a viable option. The Region will need to develop a thorough stakeholder consultation and implementation plan for successful execution of this option.

Assessment of this option based on CMSM vision:

1. **Availability** - Closing the Kinsmen centre will reduce the number of licensed spaces in the Region by 52. However, 3* of the remaining 4 centres, by employing all displaced teachers and taking on 38 more children, can ensure no change to the Region's overall operating capacity (207 children). Moreover, closing one centre will also enable the Region to better support the development of community operators and foster collaboration.

2. **Affordability** - There will be a loss in affordability for parents who currently send their children to the Kinsmen centre assuming they have to place their children in non-profit for for-profit centres. However, there will be an increase in affordability for parents who live and work close to the centres increasing their operating capacity (Cambridge, Christopher and Elmira). As such, the overall impact to affordability will be very small.

3. **Accessibility & Inclusion** - According to former operators, closing one centre will reduce accessibility and inclusion in the Region since it provides more care to vulnerable populations compared with other operators. In particular, 6 children with Special Needs and 14 children requiring Subsidy will be displaced by the closure. However, this impact can be offset by increasing licensed capacity for 3 other Regionally operated centres with the intention of offering priority to children with Special Needs and those requiring subsidy.

4. **Accountability & Quality** - Closing one centre should not result in a decrease in quality child care since the loss in licensed spaces will be offset by increased operating capacity. Moreover, all teachers at the Kinsmen centre will be re-deployed to 3 other centres. The closure will also help the Region to manage resources efficiently. An anticipated $870K per year can be re-allocated to the Child Care Sector.

This option can be implemented alongside option #1: Refocus priorities of Children's Centres and option #2: Initiate cost saving measures.

**VIABILITY ASSESSMENT**

This option is viable because:
- It leads to $118K in annual cost savings and $174K in cost avoidance
- It frees up $870K per year for re-investment into the child care system and $18K per year for re-investment to the same or other Regional priorities
- It maintains the existing staffing level with only 2 layoffs valued at $188k
- It allows all the remaining 4 centres to operate at 100% of licenced capacity
- It allows for the eventual sale of the Kinsmen centre (surplus building)
- It allows the Region to continue its role in the direct operation of child care and expand its role as a system builder
System-Wide Observations & Recommendations

Improve Data Management and Data Strategy

Ontario Child Care Management System (OCCMS) and other community agency data

- Report OCCMS required data, i.e. fee subsidy. Feedback is that OCCMS reports only show a specific picture, not a holistic view of the Region’s child care system.
- Special needs data, collected by KW Habilitation via SNAP, is not integrated with OneList.
- New licensed child care operators are not on OneList (cannot accept families with fee subsidy needs) until a Purchase of Service Agreement is established. There is a 12-month waiting period where these new operators use their own system to manage enrollment.

OneList

- Assumes equal access, but in reality does not fully promote equity. More challenging for new comers or vulnerable families to use OneList and obtain child care.
- Limited reporting capability requiring users to perform manual manipulations to generate data they need to analyze and monitor trends.
- Main data source used in assessing priority of placement. However, placement data fields are not actively used by the Centres or operators.
- Communication to parents of OneList waitlist and enrollment status can be improved. Number of days on the waitlist is not analyzed.
- Challenge on obtaining the right amount of personal data. Parents have option to disclose demographic and fee subsidy information.

Children’s Centres Operations

- The Centres do not use a specific software to manage or track enrollment schedules (e.g. full time vs part time), attendance records, or other demographic information.
- Only reporting electronically on OCCMS requirements.
- The current manual records prevent staff from understanding the Centres’ performance and monitor trends.
- Separate reporting process for capital spending on preventive maintenance and capital projects.
Region of Waterloo
Third Party Review of Children's Centres
Final Report
Service Delivery Options and the Regions Strategic Plan

Each Service Delivery Option relates to one or more of the Region’s Strategic Imperatives.

<table>
<thead>
<tr>
<th>Service Delivery Option</th>
<th>Strategic Imperatives</th>
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<tbody>
<tr>
<td><strong>01 Refocus priorities of the Children’s Centres</strong></td>
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<tr>
<td><strong>Equity</strong> – By reprioritizing enrollment strategy, this option will provide positive outcomes for the marginalized groups.</td>
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<tr>
<td><strong>02 Initiate cost saving measures</strong></td>
<td>Efficiency, effectiveness and value for money – this option will create cost efficiencies.</td>
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</tbody>
</table>
| **03 Lease the centres to community operators** | Equity – The Children Services can focus on updating the enrolment strategy ensuring positive outcomes for the marginalized groups.  
Partnerships – This option will strengthen the Regions role as System Manager; as they will not be perceived as direct competition by the community operators and bolster partnerships within the community.  
Efficiency, effectiveness and value for money – this option will allow provincial funding to be reallocated within the childcare community and result in net levy savings. |
| **04 Closure of one or more centres** | Equity – The Children Services can continue to focus on updating the enrolment strategy ensuring positive outcomes for the marginalized groups.  
Partnerships – This option will strengthen the Regions role as System Manager; as they will not be perceived as direct competition by the community operators and bolster partnerships within the community.  
Efficiency, effectiveness and value for money – this option will allow provincial funding to be reallocated within the childcare community and result in net levy savings. |
| **05 Closure of one centre and re-deployment of staff** | Equity – The Children Services can continue to focus on updating the enrolment strategy ensuring positive outcomes for the marginalized groups.  
Partnerships – This option will strengthen the Regions role as System Manager; as they will not be perceived as direct competition by the community operators and bolster partnerships within the community.  
Efficiency, effectiveness and value for money – this option will allow provincial funding to be reallocated within the childcare community and result in net levy savings. |

This option will also increase operational efficiency as centres will operate at licensed capacity resulting in a reduction in waitlist.
The five Service Delivery Options:

- **Option 1**: Refocus Priorities of the Children’s Centres
- **Option 2**: Initiate Cost Saving Measures
- **Option 3**: Lease the Centres to Community Operators
- **Option 4**: Closure of One or More Centres
- **Option 5**: Closure of one centre and redeployment of staff

KPMG has presented 5 Service Delivery options for the Region’s consideration. Each option has its own advantages, risks and challenges.

The choice of service delivery depends on the Region’s strategic priorities, budgetary pressures, and vision for the future role of Children’s Services.
Appendix A
Option 4: Implementation Plan and Timeline

Region of Waterloo
Third Party Review of Children’s Centres
Option 4: Closure of One or More Centres

Recommended Actions (1/2)

Should the Region choose to select this option, KPMG recommends the following implementation activities for consideration:

01 Closure Date
The Region should establish a formal date to close the 5 directly operated centres. KPMG recommends closure between 12 months to 18 year after Council approval, based on consultations with former municipal child care operators and the magnitude of such a closure.

02 Labour Relations
The Region should provide the Canadian Union of Public Employees Local 1883 with notice of the proposed change as required by section 8.03 of the CBA. Based on interviews with former child care operators, the Region should expect to incur legal and HR-related closing costs for negotiations, severances etc.

03 Staff and Parent Supports
The Region should consider providing counselling to parents, skill-enhancement and training workshops for staff, and an event to celebrate and appreciate the commitment of staff. All of these measures are intended to show sympathy for parents and staff and help them transition to new centres and roles. Based on KPMG's consultations, all former operators offered these types of transition supports.

04 Public Communications
The Region should create a public communication concerning the closure of its child care centres so as to proactively address potential concerns from impacted parents and the wider community. According to former operators, the Region should communicate with transparency and clearly explain the rationale for closure to parents, staff and the community.
Option 4: Closure of One or More Centres

Recommended Actions (2/2)

**Surplus Buildings and Space**

The Region should develop a strategy for the alternative use or disposition of its child care facilities. The Region owns 4 of 5 facilities and sub-leases space from a local School Board for its Elmira Centre. The Region will also need to pay off the $2.3 million in debt owing for re-development of the Christopher and Elmira centres. Note: KPMG’s financial analysis does not include any potential proceeds from the disposition of the Region’s facilities.

**Council Reporting**

Within six months of the full implementation of this opportunity, the Region may wish to consider providing Council with a report on (i) cost savings realized through the opportunity; (ii) incremental impacts on new spaces and expansion projects in the community; and (iii) the application of the cost savings realized. Consideration could also be given to providing a similar report 12 months following implementation of the opportunity.

**Method of Closure**

Based on interviews with former operators, the Region should not consider a staggered approach to closing the centres one at a time – which only prolonged closedure and extended emotional strain on parents and staff.

**Transfer of Children**

The Region should communicate with other suitable operators in the community who can accommodate the 207 children currently attending the Region’s 5 centres. Advance notice will allow them to increase capacity to accommodate the children.
Option 4: Closure of One or More Centres

Implementation Plan (1/2)

The following diagram illustrates a potential timeline to close the 5 directly operated centres. The centres would be closed in September 2022 to correspond with the start of a new school year. This implementation includes supports for children, families, staff and community operators.

Jan 2022 – Ongoing
Special Needs
Transition Supports to Other Child Care Providers

<table>
<thead>
<tr>
<th>Jan 2022 – Sept 2022</th>
<th>Special Needs Supports</th>
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<tbody>
<tr>
<td>Transition Supports:</td>
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<tr>
<td>• Subsidy Children</td>
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<td>• Full Fee Children</td>
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<tr>
<td>• Children with</td>
<td></td>
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<tr>
<td>Special Needs Supports</td>
<td></td>
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</tbody>
</table>

Sept 2022 – Future State
Re-Deployment of Provincial Funding

Transition Children out of 5 Regional Centres

Build Enhanced System-Manager Role

Jan 2022
No New Enrollment

Sept 2022
Closure of 5 Centres

Sept 2023

Sept 2024
Option 4: Closure of One or More Centres

Implementation Plan (2/2)

The following timeline represents a possible timeline for discontinuance of the 5 directly operated centres. The centres would be closed in September 2022 to correspond with the start of a new school year.

<table>
<thead>
<tr>
<th>Activity</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
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<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
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<tr>
<td>Decision to close the centres</td>
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<tr>
<td>Communications with the Union</td>
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<tr>
<td>Strategy for alternative use or disposition of buildings</td>
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<tr>
<td>Public relations, communications, and press releases for the community</td>
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<tr>
<td>Supports for staff, parents and children</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Transition of children to other centres</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closure of 1 or more centres</td>
<td></td>
<td></td>
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<tr>
<td>Report to Council on closure</td>
<td></td>
<td></td>
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<tr>
<td>Establishment of System-Building Role: Future State</td>
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</tbody>
</table>
**Option 4: Closure of One or More Centres**

**Future State: The Enhanced System-Builder Role**

The Region can enhance its System-Builder role by closing one or more of the directly operated centres, according to interviews with former operators. In particular, the Region enhance its role through the following core activities:

### THE ENHANCED SYSTEM BUILDER ROLE

| 01 | Expansion of Spaces: the Region can purchase **791** licensed child care spaces by redirecting $4.3 million in Provincial funding to non-profit and for-profit operators. This funding will increase the financial viability for many operators, and motivate the Region to become more invested in their success according to interviews with former operators. |
| 02 | Solving System Issues: the Region can dedicate more effort to solving issues with the OneList system (ongoing since 2016) and promote access to the waitlist for vulnerable populations and newcomers. The Region can also define and promote 'quality' across the Region, identify the true supply of Special Needs resources, address the industry-wide shortage of qualified ECEs, and focus on its new Data Strategy. |
| 03 | Knowledge Leader and Collaboration: the Region can dedicate resources to sharing leading knowledge with operators in the community. The Region can also increase collaboration with operators, for example, by establishing a council composed of representatives drawn from across the Region, in order to discuss strategies, opportunities and risk in the child care sector. |
Appendix B
Option 4: Centre profiles

Region of Waterloo
Third Party Review of Children’s Centres
Option 4: Closure of One or More Centres

Elmira Children’s Centre

- **8%** Number of families requiring subsidy to afford daily fees at the centre.
- **$4,933** Average levy per child care space at the Elmira centre from 2017-2019.
- **64** Number of licensed child care spaces provided by other operators in the neighbourhood.
- **4** Number of children currently requiring Special Needs supports at the centre.
- **14.79** Number of FTEs currently working at the centre.

The Elmira Children’s Centre should be closed 1st when the centres are evaluated according to the above metrics. Total yearly savings to the levy are expected to be $264,113.
Option 4: Closure of One or More Centres

Kinsmen Children’s Centre

- **37%** Number of families requiring subsidy to afford daily fees at the centre.
- **$1,001** Average levy per child care space at the Kinsmen centre from 2017-2019.
- **90** Number of licensed child care spaces provided by other operators in the neighbourhood.
- **6** Number of children currently requiring Special Needs supports at the centre.
- **11.50** Number of FTEs currently working at the centre.

The Kinsmen Children’s Centre should be closed 3rd when the centres are evaluated according to the above metrics. Total yearly savings to the levy are expected to be $52,069.
Option 4: Closure of One or More Centres

Cambridge Children’s Centre

- **32%** Number of families requiring subsidy to afford daily fees at the centre.
- **$1,985** Average levy per child care space at the Cambridge centre from 2017-2019.
- **16** Number of licensed child care spaces provided by other operators in the neighbourhood.
- **18** Number of children currently requiring Special Needs supports at the centre.
- **11.22** Number of FTEs currently working at the centre.

Sources:
- Children’s Centres and Program Costs Actuals Updated: Special Needs (as at March 13, 2020)
- 2020 FTE Planning
- Current Child Care Centres
- Number of Children Served by Centre by Year (Subsidy and Full-Fee)

1 Includes an allocation from the Program Costs budget.
2 Neighbourhood defined as the Aggregate Dissemination Area (ADA) according to the 2016 StatsCan Census Survey.

The Cambridge Children’s Centre should be closed 4th when the centres are evaluated according to the above metrics. Total yearly savings to the levy are expected to be $103,213.
Option 4: Closure of One or More Centres

Edith MacIntosh Children’s Centre

11% Number of families requiring subsidy to afford daily fees at the centre.

$3,959 Average levy per child care space at the Edith MacIntosh centre from 2017-2019¹.

39 Number of licensed child care spaces provided by other operators in the neighbourhood².

5 Number of children currently requiring Special Needs supports at the centre.

9.54 Number of FTEs currently working at the centre.

Note: a $6 million dollar re-development is also planned for the Edith MacIntosh Centre in the Region’s 10 Year Forecast.

The Edith MacIntosh Children’s Centre should be closed 2nd when the centres are evaluated according to the above metrics. Total yearly savings to the levy are expected to be $134,601.
Option 4: Closure of One or More Centres

Christopher Children’s Centre

- 35% Number of families requiring subsidy to afford daily fees at the centre.
- $2,131 Average levy per child care space at the Christopher centre from 2017-2019.
- 0 Number of licensed child care spaces provided by other operators in the neighbourhood.
- 12 Number of children currently requiring Special Needs supports at the centre.
- 14.54 Number of FTEs currently working at the centre.

The Christopher Children’s Centre should be closed last when the centres are evaluated according to the above metrics. Total yearly savings to the levy are expected to be $123,616.