



Commission to Promote
Sustainable Child Welfare

Commission de promotion de la viabilité
des services de bien-être de l'enfance

A NEW APPROACH TO FUNDING CHILD WELFARE IN ONTARIO

**FINAL REPORT
August 2011**

The Commission to Promote Sustainable Child Welfare was created by the Minister of Children and Youth Services to develop and implement solutions to ensure the sustainability of child welfare. The Commission reports to the Minister and will complete its work in the fall of 2012. Further information is available from the Commission's website: www.sustainingchildwelfare.ca.

The Commission to Promote Sustainable Child Welfare was created by the Minister of Children and Youth Services
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EXECUTIVE SUMMARY

Many factors contribute to the performance and sustainability of child welfare in Ontario. Among these factors are: the clarity of policy and expectations set by government, the overall structure and organization of the sector, the effectiveness of the Board of Directors and leadership teams of children's aid societies across the province, the talent and commitment of the workforce, the quality of inter-relationships with other sectors relating to children and families, and *the approach through which the sector is funded*.

In June 2010, the Commission to Promote Sustainable Child Welfare issued its first report in which it set forth a four-tiered strategy through which it would advance the sustainability and performance of the sector. This subsequent report sets out the Commission's recommendations relating to Tier 2 of this strategy – *Changing the approach to funding child welfare in Ontario*.

Work on Tier 2 was undertaken from August 2010 through February 2011. The approach employed was consistent with the Commission's principles of balancing "lived experience" with evidence-based analysis. Work included extensive consultation with leaders in and outside of the child welfare sector, research into funding models in other sectors and jurisdictions, and in-depth econometric analysis and modelling.

In addition to recommendations relating to the overall approach to funding children's aid societies, the Commission is recommending implementation of a new model for allocating finite funding among children's aid societies. Collectively, these recommendations achieve three important goals:

- **Increase equity** by ensuring that funding is allocated across the province proportionate to needs.
- **Provide flexibility** for individual children's aid societies to deploy funding in a way that delivers on provincial expectations and accountabilities while remaining within budget and reflective of unique community circumstances.
- **Promote resiliency** of individual children's aid societies, thereby, advancing the sustainability of the sector as a whole.

The recommendations are as follows:

RECOMMENDATIONS RELATING TO THE OVERALL FUNDING APPROACH

*Establish a goal for communicating **fiscal year funding targets no less than three months prior to the start of each fiscal year.***

*Commit to shifting the sector to rolling **multi-year funding** to provide greater certainty and long-range planning by individual agencies and by the sector as a whole.*

*Revise the rules relating to **retention of surpluses** to enable agencies to build small reserve funds.*

*Put in place a **new approach to planning, budgeting, and approving major capital** for the sector and separate capital funding from operating funding.*

Transfer administrative responsibility for payment of adoption and legal custody subsidies from children's aids societies (CASs) to the Ministry of Children and Youth Services (MCYS).

*Develop a **separate approach for funding designated Aboriginal CASs** for implementation.*

RECOMMENDATIONS RELATING TO THE APPROACH TO ALLOCATING AVAILABLE FUNDS

*Adopt the **Local Needs-Based Funding Model** for allocating available funds among CASs.*

*Employ a **multi-year phase-in of the Local Needs Based Model** with adjustments for Crown Wards, amalgamating agencies and other factors to ensure service continuity and agency stability during the implementation period.*

*Consider quantifying the incremental costs for CASs designated to provide **Francophone services** and treat these costs as a "post-formula adjustment" in the new funding model.*

Recommendations for Tier 2 (Funding) will be complemented by recommendations relating to Tier 3 (Accountability and System Management). Through its Tier 3 work, the Commission is collaborating with MCYS and CASs to develop an accountability framework so that all CASs have clear expectations on the performance and outcomes they are expected to deliver within the funding that they receive. These expectations will be fully aligned with province-wide priorities for supporting vulnerable children and families.

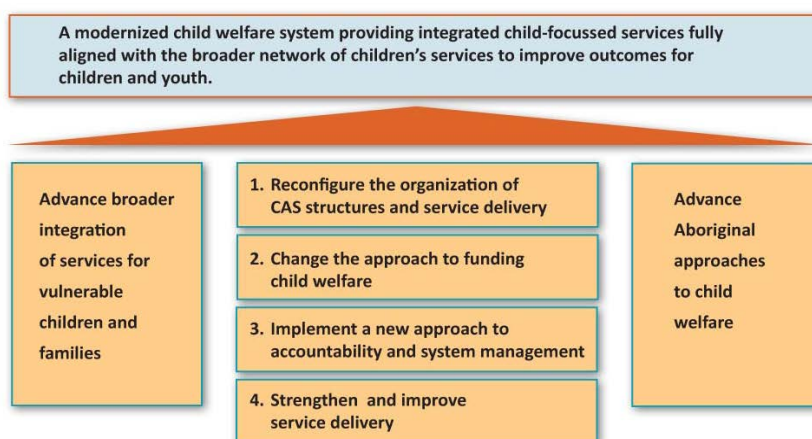
The Commission is persuaded that the current funding approach – both how funds are allocated and the overall funding process – does not contribute to the sustainability of the child welfare sector. The current approach fails to ensure proportionate distribution of funds and hampers the flexibility of individual CASs to maximize the good they can do with the finite funds available to them. The approach being recommended by the Commission offers a child-focused solution to these limitations. These changes to the funding approach will complement the changes arising from the other dimensions of the Commission's strategy to advance the sustainability of the child welfare sector and increase our odds as a province in maximizing the outcomes for vulnerable children and families.

I. INTRODUCTION

A. The Commission's Work on Funding

In July 2010, the Commission to Promote Sustainable Child Welfare issued its First Report. In this report, the Commission set forth a four-tiered strategy through which to move towards realization of this vision. This strategy is set out below:

A Four-Tiered Strategy for Sustainable Child Welfare



This working paper reports on the Commission's work on the second tier of this strategy – *Change the approach to funding child welfare*.

Work on funding was undertaken between August 2010 and February 2011 and has been informed by:

- A Funding Approach Reference Group comprised of subject-matter experts from CASs, MCYS, and OACAS.¹
- Multiple consultations with the OACAS Funding Advisory Committee, the OACAS Board of Directors, and senior leaders from all Ontario CASs.
- Parallel consultations with senior leaders from MCYS as well as senior government leaders in the health and education sectors.
- Targeted consultations with CAS leaders on specific issues relating to aboriginal funding, and funding considerations for Hamilton and Toronto, communities in which there are more than one CAS.
- Review of multiple written submissions from CASs regarding the current funding model.
- Review of funding approaches for child welfare in other Canadian jurisdictions as well as in parts of the United States, United Kingdom, and Australia.

¹ See Appendix 1 for a listing of the members of the Funding Approach Reference Group.

- Engagement of econometric consultants to undertake extensive analysis and model development.

Drawing on inputs from MCYS and sector leaders, the Commission based its funding work on six principles as guideposts in evaluating the current approach and developing an alternative approach for funding child welfare. These principles are:

- Equitable funding proportionate to local needs,
- Promote local accountability and flexibility for achieving outcomes,
- Avoid perverse incentives and gaming,
- Transparent, understandable and pragmatic,
- Adaptable, and
- Timely and predictable.

It is important to note that the Commission's work on funding has focused on the *allocation* of funds and the *processes* surrounding the annual funding and budgeting cycle – not on the size of the funding envelope. The Commission appreciates and remains concerned about the intense financial pressures that are being experienced by some CASs during this extended period of public expenditure constraint. The Commission commends CASs and the ministry for their collaborative efforts during the past two fiscal years to implement expenditure management activities. It is a testament to both the ministry and the CASs' efforts that more CASs are expected to balance their budgets in 2011/12 than in either 2010/11 or 2009/10 *in spite of the climate of fiscal constraint*.

The Commission's overall sustainability strategy is designed to continue to implement changes that will enhance the sector's capacity to deliver positive outcomes within the available dollars. The work of Tier 2 (Funding) is only part of this broader set of changes that together will promote the sustainability of the sector.

Against this backdrop, the recommendations arising from the Commission's Tier 2 work fall into two categories:

- Recommendations relating to the *overall approach* to funding the child welfare sector.
- Recommendations on a *model through which to allocate approved government funding* among Ontario's CASs.

B. Why Does the Funding Approach Matter to Sustainable Child Welfare?

The effectiveness and sustainability of any public service is significantly influenced by the approach through which funds are allocated and the context in which service providers are able to convert these funds into services that respond to needs.

Every public sector funding approach has its limitations. Those who deliver and use publicly funded services will always be able to identify unmet needs and more services that could be delivered if more funding were available. Conversely, since the impact of public services can be difficult to quantify,

fundors will understandably question whether value for money is being maximized and whether optimal outcomes are being realized.

In child welfare, quantifying what we are paying for is complicated by the fact that in some cases, less *activity* (e.g. fewer children in care) can be a measure of success if it is offset by more children realizing safety and permanency without being “in care”. As a result, activity may not be the optimal driver of a child welfare funding approach. *Need* for services is arguably a more attractive basis for a funding approach as the purpose of child welfare is to respond to children in need of protection. Need for service is directly influenced by a broad range of stressors on families which may be more prominent in some communities and family situations than others. Finally, the resources required to provide these services are influenced by a variety of cost factors which may vary from one community to another depending on distances, availability of other services, and other regional circumstances. A challenge in a province as diverse as Ontario is that need and cost factors can vary significantly from one part of the province to another. Moreover, over time, service needs can shift significantly as a result of changes in population and economic factors.

As with providers of all other public services, Children’s Aid Societies must be able to accommodate changes in funding levels that arise from changes in the provincial economy. In Ontario, the last two years have demonstrated the difficulty that CASs are having in adjusting to this current and continuing period of public expenditure constraint.

Sustainable child welfare requires a funding approach that can accommodate the diversity of the province and adapt to changing circumstances while ensuring on an ongoing basis that finite resources are being deployed in a way that responds to needs and maximizes positive outcomes for children. This requires that:

- Funding is allocated across the province proportionate to current needs.
- CASs are clear on their accountabilities and expected outcomes.
- CASs have the flexibility to manage their funding in a way that delivers on these expectations while remaining within budget.
- The overall funding process contributes to the resiliency and sustainability of agencies.

II. WHERE ARE WE TODAY AND WHY ISN'T IT SUSTAINABLE?

A. History and Context for the Current Funding Approach

Child welfare services in Ontario are delivered through 51 independently governed children's aid societies who receive almost all of their funding through transfer payments from the province.

In 1998/99, a new "Funding Framework" was introduced. This was replaced in 2005/2006 with a new "Multi-year Child Welfare Funding Model" (CWFM) which was developed as part of the much broader "Transformation Agenda" for child welfare. Legislative changes occurred in November 2006. Both funding models were characterized as volume-based approaches which reflected the mandatory nature of child welfare services. The CWFM was designed to support the policy initiatives within the Transformation Agenda with specific blocks of funding to support Differential Response and Permanency initiatives. The model also included mechanisms for adapting to year to year changes in volume.

The significant fiscal constraints that began in 2009/10 have brought increased attention to the limitations of the current funding model and other aspects of the government's overall approach to funding the child welfare sector.

B. Challenges with the Current Funding Approach and Sustainable Child Welfare

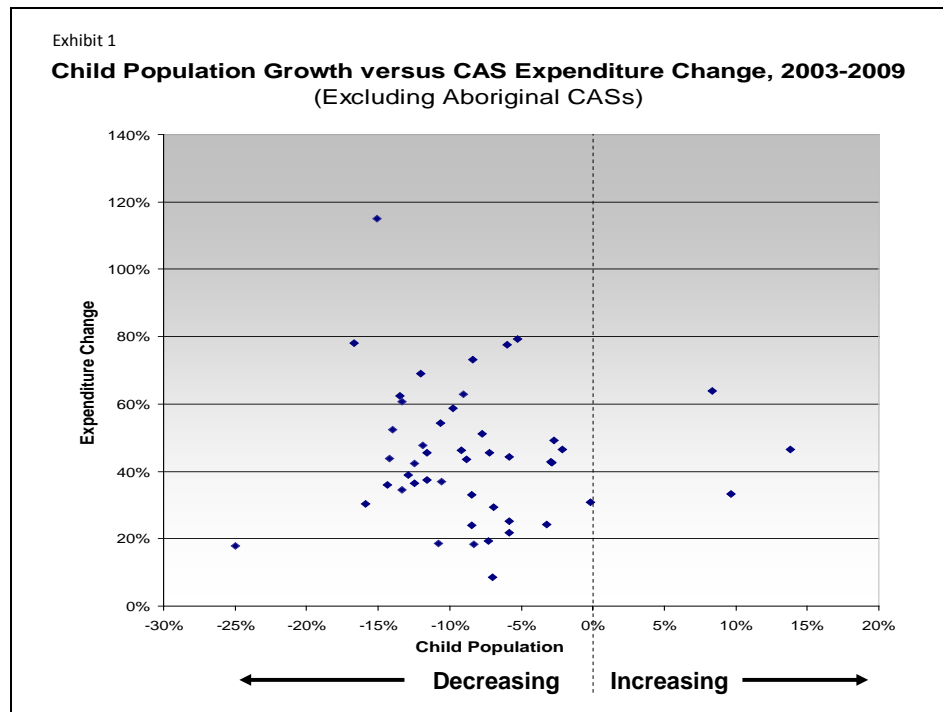
The Commission has observed several challenges with the government's current approach to funding CASs. Collectively, these challenges are undermining the sustainability of individual agencies and of the sector as a whole.

- Funding decisions are typically communicated once the fiscal year has already started. Agencies lack the information they need to plan and manage public resources over a longer-term horizon.
- There is no consistent, province-wide approach to capital for CAS buildings with the result that some agencies have very high lease and mortgage costs, some agencies have very low costs, and some agencies have pressing needs for new facilities – but no plan in place to address them. There is also considerable variability in the quality and amount of space being used by individual CASs.
- While CASs are utilizing significant resources to respond to a broad array of reporting requirements, there is insufficient clarity on overall accountabilities and limited information on what outcomes CASs are delivering in exchange for the public resources they are allocated.

The most significant concern, however, relates to the approach with which finite child welfare funds are allocated between the 51 agencies. The funding model introduced in 2006 allocates available funds

based on historical costs and activity levels of individual CASs with some latitude for adjustments as volumes change. Funding is tied to specific cost factors which in turn are tied to specific activities. Since the highest cost activities relate to supporting children in foster and group care, the current approach inadvertently rewards CASs that maintain “in care” volumes resulting in an inherent disincentive to find alternative lower cost avenues to support children and families. Moreover, because funding is determined on a CAS by CAS basis, there is no mechanism to adjust the balance of funding between CASs as needs change from one community to another.

As illustrated in Exhibit 1, the result is that many CASs with declining child populations have seen their budgets grow at rates equal to or well in excess of CASs with child populations that are increasing.



Some proponents of the current CWFM contend that the model was never fully implemented as intended and that its current limitations could be rectified by realizing full implementation of the model. The Commission does not share this view. Full implementation would address some, but not all of the limitations of the CWFM. The sector would still be left with a model that is driven largely by historical costs and volumes of individual agencies with limited capacity to balance and adjust funding allocation proportionate to changing needs across the province. The dependence of the CWFM on 17 funding factors and annual volume adjustments would continue to create inadvertent disincentives to CASs from investing in lower cost services and alternatives to bringing children into foster and group care. It also needs to be recognized that the CWFM was created as a tool to implement the Transformation agenda and its full implementation has proven difficult in an environment of fiscal constraint.

The Commission's conclusion is that the CWFM and the current approach to allocating funds between CASs is perpetuating inequities, creating unintended disincentives, and limiting the flexibility of CASs to make the most of the funding they have.

Sustainable child welfare depends on making purposeful changes to how we allocate limited funds between CASs and the annual processes that surround planning and budgeting. Without these changes, we will continue to fall short of providing equitable supports to vulnerable children and families across the province and short of maximizing the value of our investment in services to support them.

III. RECOMMENDED CHANGES TO THE OVERALL FUNDING APPROACH

A. Strengthening the Capacity and Resiliency of CASs through Changes to the Funding Approach

Resiliency of CASs requires that they have the latitude to make the choices and trade-offs inherent in optimizing the use of finite resources to meet ever-changing needs. Scale is also an important factor in resiliency – a factor being addressed through Tier 1 of the Commission’s work which is supporting a number of CAS amalgamations. A large part of this resiliency is influenced by the overall framework and context in which CASs receive their funding. The Commission has examined this context for the government’s approach to funding and is making a number of recommendations for changes that will strengthen the resilience and the capacity of CASs on an ongoing basis.

RECOMMENDATION 1

*Establish a goal for communicating **fiscal year funding targets no less than three months prior to the start of each fiscal year.***

Effective fiscal planning and resource management relies on foresight. Agencies are hampered by the timing of funding announcements for their next fiscal year. For a number of years prior to 2009/10, a pattern developed in child welfare funding in which CASs received their funding notification several months into the year and often ended the year with deficits which were covered by year-end “mitigation funding”. This pattern of late in-year funding announcements and year-end mitigation was counter-productive to both government and to CASs.

In a climate of financial constraint, it is more imperative than ever that agencies can count on timely information to inform their fiscal year planning. The Commission has recommended that government target communication of this information – or at least general planning parameters – no later than the end of the third quarter each year.

In parallel, the Commission has observed that there is variability in how proactive CAS boards are in initiating budgeting and planning process in advance of the new fiscal year. CAS boards would be well served to actively initiate this process well before the start of each new fiscal year. In so doing, CASs could use a scenario planning approach to evaluate budget strategies under a range of funding assumptions. This would equip CAS boards with a better understanding of the choices that may need to be made under a range of funding allocation outcomes.

RECOMMENDATION 2

*Commit to shifting the sector to rolling **multi-year funding** to provide greater certainty and medium-range planning by individual agencies and by the sector as a whole.*

In 2006, recommendations associated with the implementation of the current funding approach strongly urged the government to shift to a multi-year funding approach to the sector. Throughout the Commission's regional and agency visits and related consultations, the importance of multi-year funding has been repeatedly emphasized. Greater certainty for future year funding would enable CAS boards and leadership teams to more effectively undertake longer-range planning for their organizations and to be held accountable for long-range goals.

Given the significance of this factor to the resiliency and self-sufficiency of CASs, the Commission recommends that government commit to moving in this direction. In a rolling multi-year approach, agencies would receive a firm allocation for the upcoming fiscal year and a target for their subsequent two years. This – combined with the earlier notification of the next fiscal year's allocation – would enable agencies to have longer-term planning horizons to manage their funds, implement changes, and balance their budgets.

RECOMMENDATION 3

*Revise the rules relating to **retention of in-year surpluses** to enable agencies to build small reserve funds to offset prior year deficits or unforeseen future circumstances.*

The past two fiscal years have seen increasing numbers of CASs burdened by growing deficits with limited means to address them. This situation has created intense anxieties among CAS boards, staff, and stakeholders. In the absence of any ability to create and draw on reserve funds, CASs become overly focused on the short-term and overly reliant on the government for mitigation.

The Commission recommends that the current rules be revised to allow CASs to retain a portion of surplus funds to build up small reserves. These reserves can be used for the purpose of off-setting prior year deficits and to create capacity to respond to future unforeseen circumstances or fiscal pressures.

RECOMMENDATION 4

*Put in place a **new approach to planning, budgeting, and approving major capital** for the sector and separate capital funding from operating funding.*

Changes to the current funding formula in 2009/10 placed a 10% cap on agency infrastructure costs and brought to light the considerable variation in overhead costs that exists among CASs. This is particularly true with differences associated with major capital expenditures. A survey undertaken by the Commission in fall 2010 to examine spending on major capital among CASs found the following:

- Facility costs as a percentage of total approved agency allocations vary widely and do not necessarily correlate with agency size. More than twenty agencies have percentages less than 1%, two have percentages approaching 6% and the remainder are scattered between these two ends of the spectrum.
- The number of locations operated by CASs varies significantly and is not necessarily correlated with size or geography.
- Some agencies are providing space for free to community partners while others have lease and rental arrangements. Rental revenues range from \$0 to over \$400,000.
- Some agencies have benefited from historical philanthropic and government investments in their physical plants, while others have undertaken major leases and investments with limited supports.

The Commission has also observed significant variation in the quality of physical plant, availability of space, and future pressures on major capital. There are no sector-wide standards, nor a coordinated process for planning for major capital needs, across the sector. Costs associated with leases and mortgages are fully embedded in the current funding model and are not separated out from operating costs.

The Commission recommends that MCYS develop a comprehensive and consistent approach to planning, budgeting, approval, and funding of major capital. This approach should also separate funding for capital from funding for operations.

RECOMMENDATION 5

Transfer administrative responsibility for payment of adoption and legal custody subsidies from CASs to MCYS.

A significant dimension of the 2006 Child Welfare Transformation agenda was its focus on the central role of “permanency” in child welfare. Greater emphasis was placed on the importance of CASs pursuing all available options for achieving long-term stability for children and youth including remaining with or returning to their families of origin. Emphasis was also placed on increasing the availability of subsidies to families who adopt or are granted a legal custody order for special needs children but who lack the financial means to fully support their needs. CASs have the discretion to provide episodic and/or ongoing financial assistance to families under the Permanency Funding Policy Guidelines.

Over the last several years, many CASs have moved ahead in providing financial subsidies to families who adopt (or become legal guardians of) special needs children. This policy direction has created permanency for many Ontario children while avoiding the higher costs of supporting these children in foster and group care. For individual CAS’s, however, a commitment to a subsidy for an adopted child represents a multi-year commitment of finite agency funds to support a child who is no longer in need of protection. Consequently, supports for children and families vary across the province depending on the financial capacity and priorities of individual CASs at any given point in time. Equity is compromised as a result. Opportunities to give children permanent homes are lost. And the savings that can be realized from reducing in-care costs by moving children to permanency are not realized.

In August 2009, the Expert Panel on Adoption and Infertility included in its report a recommendation that subsidies for adoption be paid for by the provincial government. In Alberta and the United States, adoption subsidies are centrally run and funded by the government. It should be noted that child welfare services are provided differently in other provinces and states, that is, government administered as opposed to CAS administered.

The Commission recommends that funds be set aside from the current child welfare envelope and that administrative responsibility for payment of annual adoption *and legal custody* subsidies be transferred from CASs to MCYS. In practice, this would mean that all CASs would continue to make the decision on when it is appropriate to place a child for adoption or legal custody and they would continue to take the lead in identifying and supporting the adoptive and legal custody families. CASs would apply common provincial guidelines in proposing subsidy eligibility for children and youth that they are placing for adoption or legal custody. Approval and payment of subsidies would be administered centrally by the Province.

RECOMMENDATION 6

*Consider quantifying the incremental costs for CASs designated to provide **Francophone services** and treat these costs as a “post-formula adjustment” in the new funding model.*

All CASs providing services to Francophone children and families have an obligation to provide services in French if requested to do so. For agencies that serve larger Francophone populations, this obligation brings many additional demands: translation of all public materials; recruitment and retention of bilingual and French speaking staff, board members, volunteers, and foster families; and identifying and working with other service providers who have French-language capabilities.

Regression analysis undertaken by the Commission to develop a new allocation approach did not show Francophone factors to be highly predictive of agency costs. However, based on the Commission’s visits with and examination of agencies serving Francophone children and families, it has concluded that there are multiple material costs factors that are unique to these agencies. Recognizing not only the moral obligation but also the legal obligation to provide Francophone services, the Commission recommends that the Minister request further work of MCYS to quantify the incremental costs of providing these services. Consideration should then be given to making a “post-formula adjustment” for relevant agencies in the new funding model.

B. Addressing the Unique Considerations of Funding for Aboriginal Child Welfare

RECOMMENDATION 7

Develop a separate approach for funding designated Aboriginal CASs.

The Commission has released a discussion paper on Aboriginal child welfare, entitled *Aboriginal Child Welfare in Ontario- A Discussion Paper*, that describes the unique history and current circumstances surrounding child welfare for Aboriginal children and youth.

Aboriginal communities live with the profound impacts of a history that has undermined their capacity to care for their children. These communities also face a range of socio-economic stressors and challenges associated with a growing youth population. Northern Aboriginal communities face additional complexities associated with the cost of living, isolation, and limited local services. Aboriginal people living in urban communities often struggle with lack of cultural connections, unemployment, and other challenges.

The analysis undertaken by the Commission examined the costs associated with meeting the needs of Aboriginal children and youth. The Commission is satisfied that the “Aboriginal share factor” that has

been developed as part of the Local Needs Based Funding Model is an effective mechanism for ensuring appropriate funding to mainstream agencies that serve Aboriginal children and youth.

On the other hand, the Commission determined that the cost structures and service needs of the six designated Aboriginal CASs and the communities they serve are markedly different from those of mainstream CASs. Attempting to reflect these unique factors in the Local Needs Based Funding Model is not in the best interests of the children and families served by the designated Aboriginal CASs. Moreover, inclusion of the designated CASs in the Local Needs Based Funding Model may have the effect of distorting the allocation results for mainstream CASs.

As a result, the Commission has recommended that a project be undertaken to develop a distinct funding approach for the designated Aboriginal CASs. This project should be under the direction of MCYS. It should incorporate input from the Aboriginal agencies themselves and should seek the advice of independent experts on Aboriginal child welfare and on funding models.

IV. RECOMMENDED APPROACH FOR ALLOCATING AVAILABLE FUNDING

RECOMMENDATION 8

Adopt the Local Needs-Based Funding Model for allocating available funds among CASs

A. Understanding the Range of Options for Allocating Funding

Finding the best approach to allocating finite funds in the public sector is a challenge in all jurisdictions. In the Commission's review of funding approaches in Ontario and in other jurisdictions, multiple formula-based approaches were considered:

- *Agency-based funding* – Funding is transferred through block grants to agencies to cover the costs that they incur. Often historical costs and/or activity levels are used to determine funding levels. The current model falls under this category.
- *Population-based funding* - Funding is calculated on a per-capita basis within designated service catchment areas. Although straight per-capita funding can be used, population-based approaches often weight the population based on socio-demographic and community factors (e.g. poverty, immigration, health status, population density) and costs and/or need for service.
- *Fee for service* – Fees are paid to independent agencies for the range of specified services provided to individuals.
- *Entitlement-based funding* - This approach is based on eligibility; if criteria are met, payment is made. Programs like Ontario Works and the Ontario Drug Benefit Program use this approach. However, the open-ended nature of this approach makes it a problematic approach when applied on a larger scale.

The Commission concluded that the objectives for sustainable child welfare could best be achieved through a hybrid approach that incorporates elements of many of these models but that is rooted in a population needs based orientation. The result is a formula-based *Local Needs-Based Funding Model* for allocating funds across CASs. It should be underscored that the Commission has proposed a model that requires further refinement in order for it to be operational.

The remainder of this document describes the principles underlying the Local Needs Based Model, the mechanics of how it would work in practice, and the various factors that will need to be addressed in converting this to an operating model for determining annual funding allocations to CASs.

B. The Overall Concept of the Local Needs-Based Funding Model and How it Differs from the Current Child Welfare Funding Model

The Local Needs-Based Funding Model has been designed to ensure that children at risk have access to comparable levels of service, based on need, wherever they live in the province. It is child-centred rather than agency-centred. The model works by allocating available funds based on the population of children in communities, the socio-economic factors that influence the need for child welfare services, and the factors that influence the relative costs of service delivery.

This funding allocation approach is similar to an approach that has been implemented for children’s services in the United Kingdom, for child welfare services in Alberta, and for some aspects of child welfare services in the US. It also mirrors many of the principles that are currently in use for funding elementary and secondary schools in Ontario.

Through its Tier 3 work, the Commission is working with MCYS and CASs to develop an accountability framework so that all CASs have clear expectations on the performance and outcomes they are expected to deliver within the funding that they receive. These expectations will be fully aligned with province-wide priorities for supporting vulnerable children and families. Key differences between the funding allocation through the *Local Needs-Based Model* (recommended approach) and the *Child Welfare Funding Model* (current approach) are summarized in the table that follows:

| | Child Welfare Funding Model (current) | Local Needs-Based Model (recommended) |
|---|--|--|
| Focus of the model | Agency-focused Based on covering individual agency costs from one year to the next. | Child-focused. Based on the number of children in each community, the socio-economic factors that influence demand for child welfare services, and the local factors affecting costs of providing services in that community. |
| Alignment with provincial priorities for child welfare | Somewhat but not fully aligned. CASs constrained by the need to ensure that this year’s activities maximize their funding for next year. No clear performance or accountability framework. | Accountability framework and clear provincial policy priorities will define the context for CASs decision making on how to optimize their funding to deliver results. |
| Role of incentives | Connection between funding and internal costs and activities creates “perverse incentives” for CASs to maximize volumes of higher cost services (e.g. foster care) in order to ensure positioning for next year’s funding. | Funding is tied to external factors. Therefore, CASs sole incentive is to optimize their use of available funds to meet the needs of their community and deliver on expectations set out in their accountability framework. |

| | Child Welfare Funding Model (<i>current</i>) | Local Needs-Based Model (<i>recommended</i>) |
|--|---|---|
| Equity | No mechanisms in place to ensure provincial funds are equitably distributed and rebalanced as population demographics and community needs change. | Designed to ensure ongoing adjustments to balance available funding proportionate to community needs. |
| Relationship to Service Volumes | Volume corridors and annual funding adjustment process built into the approach creating an unintended incentive for CASs to maintain or increase volumes of higher cost services. | Model assumes that distribution of funds proportionate to needs will generally provide equivalent resources to support service needs. Other changes to funding approach (multi-year funding, retention of surpluses, etc.) plus ensuring appropriate scale of CASs through amalgamations will enable agencies to accommodate unexpected service and volume demands. |

C. The Role of Regression Analysis in Developing a New Approach to Funding Allocation

The factors influencing the need for and cost of providing child welfare services are numerous, complex, and often inter-related. The incidence of poverty, for example, may correlate with lone parenthood or inadequate housing or proportion of new immigrants in a community. Similarly, there are mitigating factors which can reduce the need for or cost of child welfare services like the presence of other agencies providing services to families and children. However, the availability of other services correlates with population density.

One challenge, therefore, is to develop a formula that most accurately predicts relative levels of need. Doing so requires selecting indicators that are not so closely associated with each other as to neutralize their overall impact. A further challenge is to identify factors for which accurate and up-to-date data is readily available at the level of individual Ontario communities.

In its search for this combination of factors, the Commission used the statistical technique of regression analysis to test the relationships between factors and to identify the subset of factors which together have the best ability to predict demand and costs of providing child welfare services. Regression analysis is a common statistical method with a very long documented history, making it one of the most understood statistical tools available. So long as all the data and the formula are provided, it is also fully transparent.

The benefit of regression analysis is that the technique allows for the consideration of more than one factor at a time and determines the relative impact of each factor on the demand for service. More specifically, regression analysis demonstrates how the value of the dependent variable (need for / cost of service) changes when any one of the independent or explanatory variables changes. When

regression analysis indicates a strong correlation or linkage between risk factors, the one that is shown to be the best predictor of the need for child welfare services is selected for inclusion in the equation.

In the Commission's analysis, agency expenditures were used as the dependent variable.² Agency expenditures were determined to be the most appropriate proxy for the need and cost of child welfare services. Agency expenditures also provide the link to what the funding model must generate: *proportionate funding requirements* of agencies to respond to the service needs of their communities.

For comparison purposes, CAS expenditures were translated into "expenditure per census child" so that they could be compared without concern to the size of the agency. By "per census child", we are referring back to the census population of all children living in each CAS catchment area not to the children served by each CAS.

D. What are the Local Needs Based Factors Used to Ensure Proportionate Funding?

A wide range of social, economic, and demographic factors were evaluated. The factors that were ultimately included in the proposed model are:

- The number of children aged 0 to 15³
- The proportion of families with children that fall below the after-tax Low Income Measure (LIM)
- Teenage pregnancies as a share of all females aged 15 to 19
- Population density
- Rurality (a composite measure of settlement patterns)

This combination of factors was confirmed to be sufficiently robust to accurately and objectively differentiate relative needs and cost of child welfare services between Ontario communities. Appendix 2 provides a fuller description of the final funding factors and regression equation.

Although outside of the regression equation, the Aboriginal share factor is incorporated into the model and will be discussed shortly.

E. What Other Factors Were Considered But Not Used in the Regression Equation?

There are, of course, many other factors that influence the demand for and cost of child welfare services. However, as noted, the regression analysis identified a number of other factors that closely correlate with the factors above.

As an example, the Commission has heard frequent inquiries regarding "proportion of new immigrants" as a logical driver of child welfare needs. Multiple factors were examined relating to new immigrants:

² Note that expenditures from the three year period of 2007/08 through 2008/09 were used to ensure that unusual circumstances in any one year could not unduly influence model outcomes.

³ Children and youth aged 0-15 were used because current the Child & Family Services Act defines 16 to be the age cut-off for a child to be eligible to begin to receive protection services from a CAS.

i.e. proportion of the population with mother-tongue other than English; proportion of population in Canada less than five years. In all cases, while these factors showed some correlation to the dependent variable, they did not carry the same predictive power as the combination of factors that were ultimately chosen for the Local Needs Based Formula. This is likely because proportion of new immigrants correlates with factors like population size, population density, and LIM.

Availability of other children's and family services in a community was another area that was anticipated to be predictive of the need for and cost of child welfare services. The hypothesis here is that communities with higher concentration of other child and family services would have lower demand for child welfare services because of the availability of preventative and other supportive services for at-risk families and children. This variable presented a measurement challenge. The Funding Approach Reference Group confirmed that no single data set provides a sufficiently robust and comparable measure of the availability of community services at a local level. At the same time, analysis showed a correlation between the population size and population density factors and the apparent availability of community services.

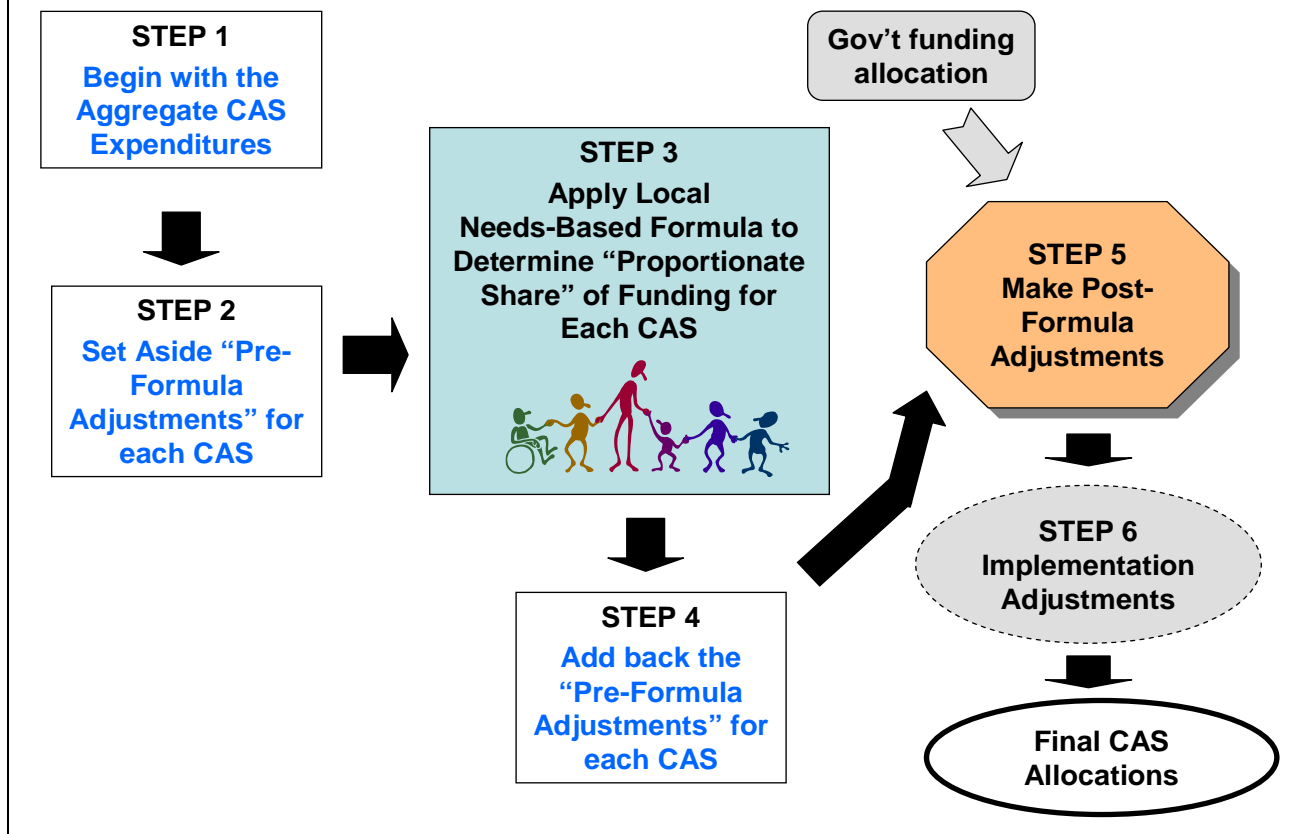
A full listing of the potential factors that were evaluated in the development of the Local Needs Based Model is included as Appendix 3.

The Commission recognizes that a portion of CASs' costs are not influenced by these kinds of community-specific factors. An example is commitments that have been by CASs made to older youth in care to support them in their transition to adulthood. These kinds of costs will be incurred regardless of changes in community needs. Similarly, some CASs could play special provincial or regional roles such as providing francophone services or leading delivery of a shared service on behalf of multiple CASs. The overall Local Needs Based Funding Model provides mechanisms so that individual CAS funding allocations can be adjusted for the costs that are not driven by community-specific factors.

F. How the Overall Local Needs Based Model Works

A conceptual diagram of the Local Needs Based Model for child welfare funding is presented in Exhibit 2. The core of the funding model is Step 3 in which the formula that was developed through the regression modelling is applied to determine the proportionate "share" of funding that each CAS should receive based on the size of child population in its community and the socio-economic factors that are influencing child welfare needs and costs in its community. Appendix 4 provides a sample walk through of these steps.

The Local Needs-Based CAS Funding Approach



In brief, the model works as follows:

Step 1 – Begin with Aggregate CAS Expenditures

Each year, the total expenditures from all CASs are used as a starting point for the model.⁴ A final determination will be required by MCYS of whether “total expenditures” or “final approved allocations” will be used as the starting point. If total expenditures are used, a related decision is required around whether these should be based on second quarter forecasts from the current fiscal year or year-end actuals from the prior year.

Step 2 – Set Aside the Pre-Formula Adjustments for Each CAS

Since the bulk of CAS funding allocations will be based on local population size and needs, it is important to make initial adjustments for the small number of cost items that are independent of local population size and needs. The Commission’s model has treated the following as “Pre-

⁴ Using the language of the current CWF, total expenditures include core expenditures (Blocks 1, 3, and 4) and Block 2 expenditures.

Formula Adjustments”: commitments already made to older youth in care through Extended Care & Maintenance contracts, adoption and legal subsidies, and net costs associated with building leases and mortgages. Revenue⁵ is treated as a positive pre-formula adjustment as CAS revenues are added to the total amount being distributed by the model.

As noted in Section III, the Commission has recommended that a separate process be put in place for major capital (building mortgages and leases) and that costs associated with adoption and legal custody subsidies be approved and paid for provincially rather than at the level of individual CASs. If there is a delay in implementing either of these changes, the Commission advises that these costs should also be treated as “Pre-Formula Adjustments”.

Step 3 – Apply Local Needs-Based Formula to Determine Proportionate Share of Funding for Each CAS

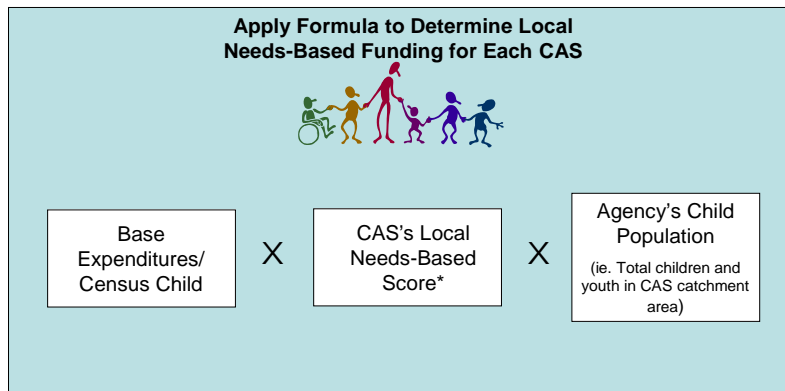
The current data for each of the Local Needs Based Factors are entered into the regression equation to calculate the “Local Needs Based Score” for each CAS. This “Local Needs-Based Score” shows the impact of the various socio-demographic and community factors on child welfare needs and costs for each CAS relative to the other CASs in the province. CASs with scores that are higher than the provincial average have a mix of needs and local circumstances that would result in proportionately higher demand and costs for child welfare than the provincial average. The reverse is true for CASs with scores lower than the provincial average. As anticipated, there is range of Local Needs Based Scores across the province as a result of differing socio-demographic and community factors.

The calculation behind the Local Needs Based Formula is illustrated in Exhibit 3. It begins with the “Base Expenditures per Census Child” – or, the average child welfare expenditure per child throughout the province. This “base expenditure” is determined by taking the total child welfare expenditures in the province (excluding the total of the “Pre-Formula Adjustments” that were set aside from CASs in step 2) divided by the total children and youth in the province. This Base Expenditure amount is then multiplied by each CAS’s “Local Needs-Based Score” and then multiplied by the number of children and youth in that CAS’s catchment area.

⁵ “Revenue” as defined by the current funding formula includes: child welfare service related tax and fee recoveries, client and personal contributions, charitable funding offsets as applicable, allowances, fees, interest earned, child tax benefits, other non-retainable income and all other child welfare expenditure recoveries including reasonable charge-backs to other funded programs for related costs incurred within the child welfare budget.

Exhibit 3

Step 3: Apply Formula to Determine Local Needs-Based Funding for Each CAS



Step 4 – Add Back the Pre-Formula Adjustments to Each CAS

Having determined the proportionate “needs-based” share of total expenditures for each CAS, this step then adds back to each CAS the costs that were removed in Step 2. To be specific, if \$235,000 were removed from CAS “A” and \$565,000 were removed from CAS “B”, these exact amounts would be returned to the initial allocation for each of these CASs in this step.

Step 5 – Make Post-Formula Adjustments

This step is where the proportionate share determined from steps 1 through 4 is translated into the actual allocation for each agency. As illustrated in Exhibit 2, this step begins with the total government funding allocation for the child welfare sector. In its simplest form, this step would involve multiplying the proportionate share for each CAS by the government funding allocation to determine a final allocation for each CAS.

This step also allows for adjustments for specific agency circumstances or specific funding of government priorities. As an example, in the event that shared services or regional hubs for specialized services emerge from reconfiguration work, the government might choose to provide additional funding to “host agencies” who are providing these services. Funding for agencies providing francophone services could also be treated as a post-formula adjustment should government choose to include this adjustment. Similarly, MCYS and/or Government policy directions in any given year might result in funding that is ear-marked for specific priorities (e.g. pay equity, one-time transitional supports for new initiatives supporting youth transitioning to adulthood). If any of these kinds of adjustments are required, the associated funding should be set aside from the total government funding allocation. The proportionate share is then applied to the residual amount to determine initial agency allocations. Finally, any specific adjustments can then be added to individual agencies resulting in a final allocation.

Note that the Commission has strongly recommended that the number and magnitude of post-formula adjustments be kept minimal in order to maintain the integrity of the core funding model and the principles underpinning it.

Step 6 – Make Implementation Adjustments

This is a transitional step that, by design, would disappear from the model once it is fully implemented. The reality of funding inequities in the current CAS allocations means that moving to a more equitable funding model will require that some CASs experience downward allocation adjustments while some others will experience upward adjustments. Minimizing the impact on vulnerable children and families necessitates careful consideration of the phasing in of these adjustments. Options for implementation are discussed later in this paper.

G. Other Considerations and Complexities

Ontario's 51 CASs range in size from approximately \$5 million in funding to close to \$160 million in funding. Some CASs serve exclusively urban populations. Some CASs serve mixed urban / rural populations. Six CASs are designated to serve specific Aboriginal populations. Three CASs are denominational and co-exist in urban centres (Toronto and Hamilton) with other CASs. Twenty-two CASs are designated under the French Languages Services Act. All CASs are providing mandated services as set out in the Child and Family Services Act and do not have the option of creating wait lists when unexpected needs arise. The Commission's work on a new funding approach has needed to take into account all of these considerations and complexities. A number of these matters merit further elaboration.

Accuracy of Population Data

A population needs-based model requires sound demographic data for the population served in an agency's catchment area. Statistics Canada provides demographic data for Census Divisions (CDs), essentially counties, and for Census Subdivisions (CSDs), analogous to a town. Data on the population of children 0-15 are available for the catchment areas of most CASs.

Although the national census is only undertaken once every five years, data at the CSD level are available for each year from the annual Demographic Estimates by Statistics Canada. Thus, a population-based model is very viable for a service like child welfare in Ontario. Model development needed to factor in two complexities, however: under-counting of some Aboriginal populations and the presence of multiple CASs within a single CD in a few parts of Ontario. These complexities warrant further comment.

Aboriginal Share

As noted earlier, the Commission recommends that a separate approach be developed for funding allocations to designated Aboriginal CASs. However, approaches are still required to estimate the size

of Aboriginal populations and to support the funding for Aboriginal children and youth in mainstream agencies.

Although some data on Aboriginal self-identified persons are available from the 2006 Census, it does not include all locations where Aboriginal persons live. Finally, there are challenges in linking the off-reserve and on-reserve populations to the appropriate agencies.

For the calculation of the share of Aboriginal people within a CD, registered population data from Indian and Northern Affairs Canada (INAC) for February 2010 was applied, in conjunction with the Census data.

Even with adjustments to address the accuracy of Aboriginal population data, a second consideration relates to the cost of supporting Aboriginal children and youth. The Commission's visits to CASs across the province substantiated the view that mainstream CASs providing services to Aboriginal children and youth face several additional costs. Some of these costs stem from requirements in the Child and Family Services Act (CFSA) relating to notification of bands and other matters. Some of these costs arise from the importance of ensuring appropriate cultural awareness of staff and providing enriched cultural programs for Aboriginal children and youth. Other requirements relate to the complexity of stresses and circumstances facing Aboriginal families.

The regression equation did not accurately capture this inter-relationship between the needs of Aboriginal children and youth and the associated service demands and costs and as a result, an Aboriginal share factor has been included in the model for mainstream agencies. This factor affects mainstream agencies that do not share their catchment area with a designated Aboriginal CAS where Aboriginal children comprise more than 5% of the catchment area's total child population. For these agencies, the Aboriginal share factor increases the agency's child population by 25% of the total Aboriginal child population. For example, if a CAS has 2,000 Aboriginal children in its catchment area representing 8% of its total child population, then an additional 500 children will be added to the agency's child population.

Multiple CASs in the Same Geographic Area

Additional considerations for allocation of population to CASs were required in the following areas of the province:

- In **Toronto**, there are two religious-based agencies, as well as the Toronto Children's Aid Society. One of the agencies, Jewish Family and Child Services, has operational boundaries that extend into the York region and therefore overlap with the York CAS. Toronto is also home to one of the designated Aboriginal agencies: Native Child and Family Services of Toronto.
- In **Hamilton**, child welfare services are delivered by Hamilton- Wentworth Children's Aid Society and by the Catholic Children's Aid Society of Hamilton.

- In **Thunder Bay**, services to Aboriginal children are provided by Dilico Anishinabek Family Care while services to other children are provided by the Children’s Aid Society of the District of Thunder Bay.
- The **Cochrane** census division has three CASs, one Aboriginal (Payukotayno) and two mainstream CASs (Child & Family Services of Timmins & District and Jeanne Sauvé Family Services)

These challenges were addressed as follows:

- For the religious agencies in Hamilton and Toronto, initial attempts were made to quantify the Catholic and Jewish populations in those areas; however, data on religious affiliation are only available from the 2001 Census and are not necessarily viewed as accurately reflecting service patterns. Following consultation with the involved CASs, an alternative approach was developed. This approach calculates a three year average using a number of categories of cases and uses this as a proxy for the share of the population to be allocated to each CAS.
- For the mainstream CASs sharing a catchment area with a designated Aboriginal CAS, Statistics Canada and INAC data were used to determine the size of the child population served by the mainstream agency.
- For all Aboriginal agencies, funding will be addressed through the Commission’s recommendation for a separate process to be undertaken to finalize an approach to allocating funds to Aboriginal CASs.

The Former Kenora-Patricia and Rainy River CASs

The former Kenora-Patricia CAS served one of the smallest child and youth populations of Ontario’s CAS but against the largest landmass for any mainstream CAS. Moreover, the former Kenora-Patricia co-existed in a region of Ontario with two designated Aboriginal CASs. The magnitude of difference between the former Kenora-Patricia and all other CASs was so great that it could not be accommodated accurately in the regression analysis. Further complexity is created by the amalgamation of Kenora-Patricia and Rainy-River CAS which occurred on July 1, 2011.

Adjustments for Volumes and/or Extraordinary Circumstances

Many CASs hold the view that it is essential for the funding formula to have a provision for adjusting for significant increases (and, of less concern, decreases) in service volumes. An argument used to support this view is that child protection is a mandated service and therefore volumes cannot and should not be controlled. A parallel concern relates to the view that some kind of “Extraordinary Circumstances” fund should be in place to respond to unforeseen increases in volumes or costs relating to unforeseen events.

The Commission gave considerable thought to these two matters but has not recommended a volume adjustment or a fund for extraordinary events for a number of reasons. The funding model has

specifically been designed to avoid elements that would create volume-based incentives for agencies – particularly relating to in-care services which are the highest cost services. The existence of a volume-based component in a funding approach dis-incentivizes, or at minimum, distracts agencies from focusing on what the optimal combination of services are, for any one child and for children in their community. Moreover, a volume-driven formula for publicly funded services suggests an open ended funding environment. This is not a sustainable approach to funding especially in an environment of public expenditure constraint.

The Commission’s analysis has confirmed that there is not a universally consistent approach to “mandated services” across CASs in the province. CASs are individually responding to the needs of their communities with the funding envelope they have been given. Inequitable funding between CASs has resulted in inequitable access to “mandated services” under the current funding approach. Hence, the Commission does not view “mandated services” as a defensible argument in favor of the current funding approach.

Regarding an “extraordinary circumstances fund”, the full scope of the Commission’s recommendations for funding approach (multi-year funding, earlier notification of budget allocations, surplus retention, etc.) have been designed to strengthen agency capacity and resiliency to respond to unforeseen circumstances. This capacity and resiliency will be further strengthened by increases in the scale of CASs arising from agency mergers and shared services.

IV. IMPLEMENTING THE CHANGES TO FUNDING APPROACH

RECOMMENDATION 9

*Employ a **multi-year phase-in of the Local Needs Based Model** with adjustments for Crown Wards, amalgamating agencies and other factors to ensure service continuity and agency stability during the implementation period.*

A. Overall Considerations for Phasing in the New Funding Approach

The preliminary allocations generated by the Local Needs Based Model have confirmed what previous high-level analysis had suggested: historical funding patterns have not kept up with the variable population growth rates and changing needs of communities across Ontario. As a result, there are inequities between the proportionate share of funding from one CAS to another.

The Local Needs Based Model will resolve these funding imbalances and is designed to dynamically adjust to changes in proportionate need over time. However, getting from here to there will require a thoughtful transition process.

If the overall child welfare funding envelope were expected to be expanding in the immediate future, implementation could be achieved by holding the budgets of “downward allocation” agencies constant while directing the new available funds to agencies identified for “upward allocation”. The current fiscal climate suggests a different outlook. The Commission is assuming that the size of the funding envelope in the near term will – at best -- be held constant. Moreover, 2011/12 marks the third successive year of spending restraint for CASs and several CASs are facing the added transitional dynamics created by agency amalgamation. These various factors must be taken into consideration in designing an implementation approach that will achieve the long-term objective of more proportionate funding while ensuring service continuity and agency stability in the immediate term.

The Commission developed and analyzed a number of implementation approaches that could be considered alone or in combination.

B. The Option of a Signalling Year to Begin the Move to a New Model

Introduction of the new funding approach requires a period of time for CASs to understand the new model and its implications for spending and service decisions. As a result, there is merit in considering a “signalling year” during which the new model drives only a small portion of funding allocation while the existing, more familiar model informs the bulk of allocation. For “downward allocation” CASs, this approach has the advantage of providing clarity regarding the long-term magnitude of funding change, while providing time to plan how this change will be managed. “Upward allocation” CASs can also

benefit from the forward planning afforded by a “signalling year”. On the other hand, a signalling year may be seen as more complicated than just moving forward with an extended full phase-in of the model.

Having considered a variety of possibilities, the Commission provided the Minister with two options through which the direction of change can be signalled to individual CASs while retaining the existing funding formula as the primary mechanism for allocating funds during an initial “signalling year”. The two options are:

- **“Dual-Track”** Allocating 90% of available funding using the current funding approach and 10% using the Local Needs Based approach.
- **“Local Needs Based Factor”** Hold back a percentage of the CAS allocations generated by the current funding model and reappportion these “holdback” dollars based on the relative upward or downward allocation projected for each CAS that is projected by the Local Needs Based model. The greater the projected upward allocation for a CAS, the greater the amount of the holdback they would receive. Conversely, CASs with projected downward allocations from the Local Needs Based Model would receive proportionately less (or none) of the holdback.

Each approach has advantages and disadvantages. The Local Needs Based Factor approach has the potential to create greater early movement of reallocations to CASs on the outer ends of the reallocation spectrum. CASs that are subject to large upward allocations will, in general, experience somewhat larger increases than in the straight “Dual-Track” approach. The converse is true for CASs projected for large downward allocations. A disadvantage to the Local Needs Based Factor approach is that the “holdback” and redistribution nature of this approach might be subject to criticism as too arbitrary. The Dual Track approach has the benefit of greater objectivity as it is a purely formulaic application of the Local Needs Based model. This approach leaves less latitude for criticism while moving all agencies in the direction of their more proportionate share of available funding.

Both approaches achieve the objective of signalling the future direction of the funding approach and beginning the process of proportionate reallocation of available funds.

C. Proportionate Phase-in of the full Local Needs Based Model

With or without a “signalling year”, full implementation will require a proportionate phase-in of the model to allow for manageable increases and decreases in funding while maintaining the relative proportion of funding that each agency is entitled to in relation to the other agencies. The Commission modelled various approaches and settled on two options for achieving this end over a three year period. Each option uses outward boundaries (or “floors” and “ceilings”) for the absolute in-year change in allocation that any agency should experience. In its modelling, the Commission used 5% as the outward annual boundaries. These boundaries could be set at higher or lower levels while recognizing that the

time to fully implement would need to be adjusted accordingly to achieve the same extent of redistribution of dollars. Final decisions on outer boundaries and the timeframe for implementation will need to take into account considerations relating to inflationary pressures on agencies and the size of the overall funding envelope. The objective remains balancing the redistribution of funding to ensure proportionate allocation based on needs while avoiding changes of a magnitude that could destabilize individual agencies.

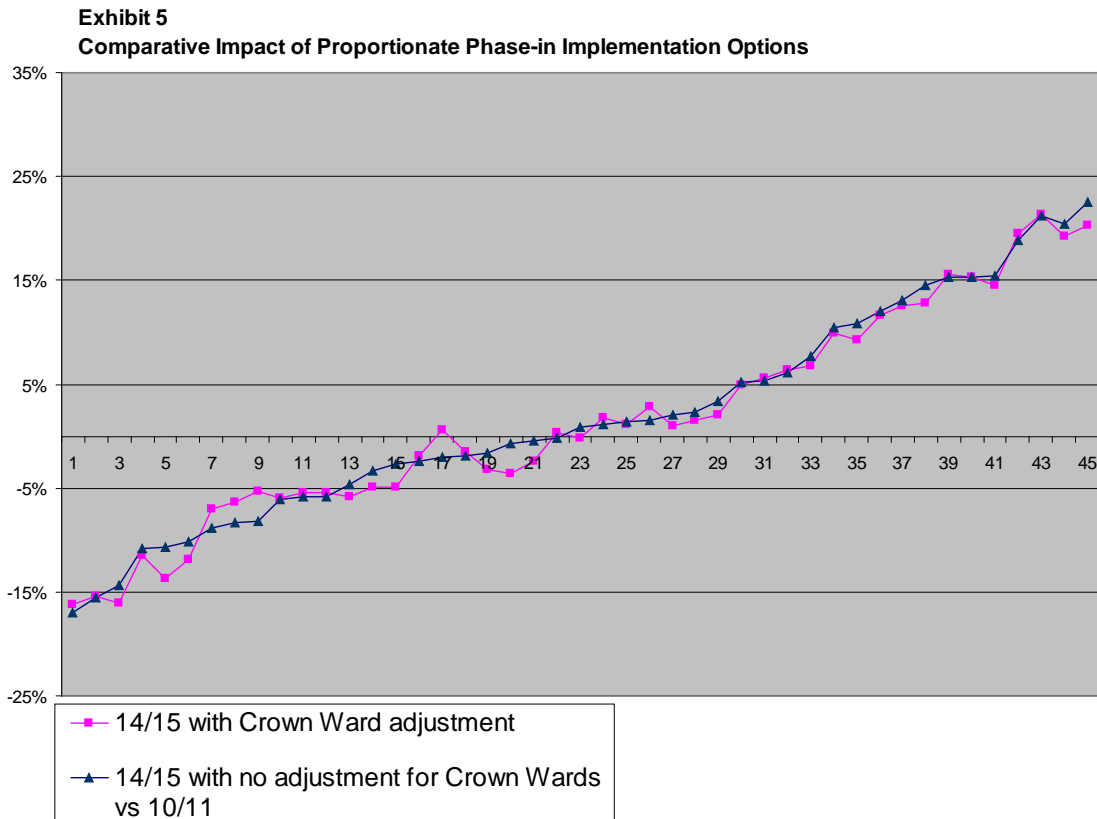
The two options examine for phased implementation were:

- **Straight proportionate phase-in** This option takes the results produced by the model in each year and scales them so that no agency increases by more than 5% upwards or decreases by more than -5% downwards in any given year. The agency set to increase the most in any year will be positioned at +5% and the agency set to decrease the most will be positioned at -5% - all other agencies will be proportionately scaled within these outer boundaries so that the relative relationship between agencies remains constant.
- **Proportionate phase-in adjusted for Crown Ward Costs** This option employs the same +/-5% boundaries while making an exception for Crown Ward costs during the three years of implementation by treating them as a “Pre-Formula Adjustment”. As such, these costs are set aside and added back into the agency’s allocation after the application of the Local Needs Based formula. In this option, 100% of Crown Ward costs are treated as a “Pre-Formula Adjustment” in year one, 66% in year two, and 33% in year three. No Crown Ward adjustments would be made in subsequent years.

The move to a population-needs-based model carries with it a need to ensure that CASs have sufficient funds to support the Crown Wards who are currently in their care. Once the Transformation Agenda is fully implemented province-wide, the population needs-based nature of the model should ensure that agencies have the funds they require based on the expected level of child welfare needs in their community. However, the model is based on current province-wide norms and we know from statistics that there is currently significant variation in the proportion of Crown Wards from one agency to the next. For mainstream agencies, Crown Ward costs currently range from 11% to 31% of total costs. This variation reflects the different pace at which CASs have moved forward with realizing the goals of the 2006 Transformation Agenda. Phasing these costs into the model over a three year period provides time for all agencies to realize similar permanency goals for Crown Wards, and for older Crown Wards to transition to adulthood.

Exhibit 5 plots the percentage change in budget for each CAS based on these two implementation approaches. In this analysis, 2010/11 allocations were used as a baseline. The plotted lines show the percentage difference in budget allocation at the end of a three-year implementation period. CASs are not named but are ordered from largest downward adjustment to largest upward adjustment. As shown in the graph, both implementation options result in the same relative magnitude of change over

the implementation period. The Crown Ward option modulates the change for agencies with higher Crown Ward costs.



The Commission recommends that the Crown Ward option as the most child-focused approach to the three year implementation period. This approach will meet the objectives of moving all agencies towards more equitable distribution of funding on the basis of local needs and costs while ensuring that funding is available to pay costs associated with children and youth who are currently “wards of the Crown”.

The merits of the Crown Ward adjustment will be viewed differently by individual agencies. The approach ensures that agencies with very high Crown Ward costs are buffered in the pace at which their costs are adjusted. On the other hand, agencies with relatively low Crown Ward costs provide the buffer for high Crown Ward agencies and therefore, move more quickly (if going downwards) or slowly (if going upwards). The Commission has considered these differing perspectives but has concluded that a child-focused approach to funding allocation would favour the Crown Ward option during the implementation period.

C. Making Adjustments for Amalgamating CASs

The implementation of the new funding approach concurrent with implementation of agency mergers presents a number of additional complexities. Merging agencies will ultimately have different cost structures than their predecessor organizations and they need to be supported in realizing these new cost structures while having stability during the transition period.

The approach to phasing in funding reallocations for newly amalgamated agencies will need to be determined factoring in:

- The individual circumstance of each new organization as outlined in their amalgamation plans.
- The adjustments to the current projections that will arise from the annual refresh of the Local Needs Based Funding Model.
- The extent to which one-time support from government is sufficient to cover extraordinary costs incurred during the transition process.

E. Advice for Operationalizing the Model

Operationalizing the proposed model will require a number of important steps.

Recalibrating the Regression Equation in 2012/13

The regression equation lying behind the Local Needs Based Model was based on extensive analysis of a wide number of socio-demographic variables over the three year period of 2007/08 through 2009/10. The resulting inter-relationships between the five socio-demographic factors in the model and the need for child welfare services were demonstrated to be fairly robust over time.

Nonetheless, two significant considerations warrant recalibration of the model in 2012/13 to adjust for any changes in the relationship between the socio-demographic / community factors *and the dependent variable of agency expenditures*.

1. The period from 2007/08 through 2009/10 included two years of funding growth and one year of funding constraint. The period from 2009/10 through 2011/12 has been a three year period of funding constraint during which the overall sector cost structure has shifted due to spending constraint and to the ongoing implementation of Transformation and Commission sustainability initiatives.

2. The regression equation is based on the actual expenditures of 45 CASs⁶. By 2012/13, CAS amalgamations will have reduced this number to 38. This will result in fewer CASs and a larger overall scale of CASs.

The regression equation should be rerun to recalibrate for these changes in the shape and performance of the sector.

Determine the Optimal Phase-in Period and the “Outer Bounds” for the Model

The Commission’s analysis assumed an implementation approach that would include an initial “signalling year” followed by a three year proportionate phase-in. The result would be a fully implemented Local Needs Based Model by year five. The analysis also assumed a set of outer boundaries (“floors” and “ceilings”) such that no CAS would experience an in-year increase or decrease in funding of more than 5%.

Multiple factors need to be considered in determining whether this phase-in period and these outer boundaries are optimal for achieving the combined goals of implementing the new model while ensuring service continuity and agency stability. These include: the size of the funding envelope; the magnitude of inflationary pressures; and any changes in service demands being experienced by CASs.

Take Stock Every Three Years

The strength of the Local Needs Based Model lies in its capacity to reflect and respond to ongoing changes in the populations and socio-demographic characteristics of communities. Annual updating of the current data for the factors in the model will result in funding allocations that are reflective of current realities across the province. In the long run, the only changes in proportionate allocations among agencies will arise from changes in these socio-demographic and community factors. As a result, once the model is fully implemented, year to year variations in the percent change in allocations between agencies should be relatively small.

There is, however, merit in a periodic “refresh” of regression equation underlying the model. This refresh will capture any cost structure changes arising from ongoing implementation of the Commission’s sustainability initiatives and any other policy changes. The refresh will also afford an opportunity to examine whether any “equity gap” remains to be addressed through further funding redistribution.

* * *

⁶ Although there are 51 CASs in the province, the six Aboriginal agencies were excluded as were Kenora-Patricia and Rainy River bringing the total CASs in the regression equation to 45.

The Commission is persuaded that the current funding approach – both how funds are allocated and the overall funding process – does not contribute to the sustainability of the child welfare sector. The current approach fails to ensure proportionate distribution of funds and hampers the flexibility of individual CASs to maximize the good they can do with the finite funds available to them. The approach recommended by the Commission offers a child-focused solution to these limitations. These changes to the funding approach will complement the changes arising from the other dimensions of the Commission’s strategy to advance the sustainability of the child welfare sector and increase our odds as a province in maximizing the outcomes for vulnerable children and families.

APPENDICES

MEMBERS OF THE FUNDING APPROACH REFERENCE GROUP

| | |
|-------------------|---|
| CASs | <p>Allan Hogan, Executive Director, Family and Children’s Services of Leeds and Grenville</p> <p>Anna-Lisa Deluca, Director of Services, Nipissing & Parry Sound Children’s Aid Society</p> <p>Bill Walsh, Director, Finance and Administration, The Children’s Aid Society of Ottawa</p> <p>Derek Evans, Director of Finance, Halton Children’s Aid Society</p> <p>Gail Bury, Director of Finance, Catholic Children’s Aid Society of Hamilton</p> <p>Jim Phillips, Director of Corporate Resources, FCS Foundation CEO, Family and Children’s Services of Waterloo Region</p> <p>Louis To, Director, Finance, Administration & Information Technology, Catholic Children’s Aid Society of Toronto</p> <p>Mark Atanasoff, Quality Assurance Analyst/Operations Analysis, Native Child & Family Services of Toronto</p> <p>Robert Rupnik, Director of Corporate Services, York Region Children’s Aid Society</p> <p>Steve Woodman, Director of Corporate Services, Ontario Association of Children’s Aid Societies</p> <p>Terry Simpkin, Director Corporate Services, Children’s Aid Society of London and Middlesex</p> |
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THE REGRESSION FACTORS AND REGRESSION EQUATION

The following equation was generated based on 2007/08 to 2009/10 data. The final regression equation that resulted from the analysis and from these factors is as follows:

$$ldep2score = \exp (c1 + c2*ladjpop15ct + c3*teenpreg + c4*popdenadj + c5*popdenadj2 + c6*rio08wgtavgcd + c7*lowinc06w08shr)$$

| Equation Results | | | | |
|---|--------------|---------|--------|---|
| Variable | Estimate | T value | Symbol | Definition |
| ldep2score | n/a | n/a | n/a | Log of an annual weighted index of the ratio expenditure to allocated adjusted population |
| Intercept | 0.87058 | 2.4248 | c1 | Intercept |
| Ladjpop15ct | -0.12377 | -4.1705 | c2 | Log of allocated adjusted population |
| teenpreg | 0.01217 | 3.9361 | c3 | Teen pregnancy |
| popdenadj | -0.00153 | -9.2509 | c4 | Population Density – ratio of adjusted population to the size in square km of the relevant CD |
| popdenadj2 | 0.0000003232 | 8.8267 | c5 | The square of the population density |
| rio08wgtavgcd | -0.00634 | -4.3278 | c6 | Rurality Index |
| lowinc06w08shr | 4.35911 | 4.1749 | c7 | Ratio of low income families with kids to total families with kids |
| F statistic = 88.86 with 6 and 128 degrees of freedom | | | | |
| Adjusted RB Squared = 0.797 | | | | |

The general statistical properties of the equation are very good. All variables are highly significant as measured by the T-value. This statistical test essentially measures the probability that the estimate is different from zero. T-values exceeding 2 are normally considered acceptable. Similarly, the F-statistic is used to determine whether the model overall has statistically significant predictive capabilities. The RB Squared statistic indicates that the equation explains approximately 80% of the variance in the dependent variable.

In terms of identifying the most appropriate combination of variables for the formula, there are a multitude of possible drivers that could potentially be used; however the correlation between these can be quite significant. This becomes problematic when one variable that is highly correlated with an existing variable is added into the equation. Although this does not affect the overall predictive power of

the model, it can be problematic when trying to statistically examine whether or not an individual variable is important or not.

The matrix below displays the correlation among the variables used in the regression model. Overall, most of the variables are not that highly correlated with each other. Where higher correlations do occur, both variables retained their significance and explanatory power in the model.

| Dataset Correlation Matrix | | | | | | | |
|----------------------------|------------|-------------|----------|-----------|------------|---------------|----------------|
| | ldep2score | ladjpop15ct | teenpreg | popdenadj | popdenadj2 | rio08wgtavgcd | lowinc06w08shr |
| ldep2score | 1.00 | -0.70 | 0.72 | -0.25 | -0.13 | 0.42 | 0.26 |
| ladjpop15ct | -0.70 | 1.00 | -0.54 | 0.39 | 0.29 | -0.73 | 0.03 |
| teenpreg | 0.72 | -0.54 | 1.00 | -0.18 | -0.10 | 0.34 | 0.38 |
| popdenadj | -0.25 | 0.39 | -0.18 | 1.00 | 0.99 | -0.43 | 0.66 |
| popdenadj2 | -0.13 | 0.29 | -0.10 | 0.99 | 1.00 | -0.34 | 0.69 |
| rio08wgtavgcd | 0.42 | -0.73 | 0.34 | -0.43 | -0.34 | 1.00 | -0.18 |
| lowinc06w08shr | 0.26 | 0.03 | 0.38 | 0.66 | 0.69 | -0.18 | 1.00 |

FACTORS CONSIDERED IN DEVELOPING THE LOCAL NEEDS BASED FORMULA

Table 1 lists the factors that were included in the final regression equation that determines the Local Needs Based Score.

Table 1

The Regression Equation: Factors that Were Included

| | |
|----------------------------------|--|
| Population Factors | |
| Child Population (0-15) | Number of children aged 0-15 in the CAS catchment area. |
| Teenage Pregnancy Rates | Reported by the Ontario Ministry of Health, this variable measures the pregnancy rate per 1000 females aged 15-19. |
| Aboriginal* | Upward adjustment based on Aboriginal Child Population for areas not served by a designated Agency |
| Economic Factors | |
| Low Income Measure (LIM) | LIM is defined as half the median family Income. The LIM measure used in the funding formula is the share of low income families in the population of families with children for each census division. |
| Regional Factors | |
| Population Density | Population density measures the average distribution of people across a CAS catchment area. |
| Rurality Index for Ontario (RIO) | Developed by the Ontario Ministry of Health, the RIO identifies catchment areas with skewed population distributions. |

**The Aboriginal factor is actually applied after the regression equation as part of the Local Needs-Based Formula.*

Table 2 lists the variables that were examined but ultimately not included in the final regression equation for reasons of statistical significance, multicollinearity (overlap with other factors), or data availability / quality.

| Table 2 | | | |
|--|-----------------------------|--------------------|-------------|
| Considered Variable | Reason for Exclusion | | |
| | Low Significance | Multi-Collinearity | Data Issues |
| Population Measures | | | |
| Lone Parent family share by CD | | x | |
| The share of persons aged 0 to 6 years to those aged 0 to 15 years | x | | |
| The number of persons aged 0 to 15 divided by those aged 16 and older | | x | |
| Population of 0 to 15 for 2006 to total economic families from Census 2006, by CD | | x | |
| Recent immigrant share (2001 to 2006, from Census 2006) | x | | |
| First generation immigrant share (Census 2006) | x | | |
| Share of occupied dwellings in need of repair (Census 2006) | x | | |
| Dwellings with more than one person per room, as a percentage of total occupied private dwellings (Census 2006) | x | | |
| Non-official language share (Census 2006) | x | | |
| 10-year population growth rate | | x | |
| Employment and Education Indicators | | | |
| Unemployment rate (LFS) | | x | |
| Change in unemployment rate (LFS) | x | | |
| Employment ratio (LFS) | x | | |
| Two-year lag in employment rate (LFS) | x | | |
| Education attainment: High School or Post-Secondary certificate, 25-64 share to all 25-64 population, non adjusted (2006 Census) | x | | |
| Education attainment: persons 15 and older, no certificate, High School or Post-Secondary certificate (2006 Census) | x | | |
| Education attainment: persons 15 and older, no certificate or with High School; no Post Secondary certificate (2006 Census) | x | | |
| Count of locations related to children services (Business Register, using NAICS 624110 and 624410) | x | | |
| Estimated employment in children services (Business Register, using NAICS 624110 and 624410) | x | | |

| | | | |
|---|---|---|---|
| Low Income Measures | | | |
| Low Income Cut-Off (LICO) | | x | |
| Market Basket Measure (MBM) | | | x |
| Ontario Works and Ontario Disability Support Program | | x | x |
| Substance Use Indicators | | | |
| Adult heavy drinking indicator (Canadian Community Health Survey), 2007 | x | | |
| Student use of any drug, including prescription drugs for non-medical use by Ontario Local Health Integration Network (CAMH data from Ontario Student Drug Use and Health Survey, 2009) | x | | |
| Cannabis use, lifetime: percentage of Ontario adults (18+) reporting major substance use and mental health indicators by Ontario Local Health Integration Networks, (CAMH data from Addiction and Mental Health Indicators Among Ontario Adults), 2004–2007 | x | | |
| Remoteness Indicators | | | |
| Attempts to capture remoteness through dummy variables | x | x | |

Local Needs Based Model Calculations for Two Fictional CASs

| | Agency A | Agency B |
|---|---|---|
| Step 2 – Pre-Formula Adjustments | Adjustments amounting to \$200,000 composed of: <ul style="list-style-type: none"> ➤ ECM: \$400,000 ➤ Subsidies: \$350,000 ➤ Infrastructure: 350,000 ➤ Revenue: -900,000 | Adjustments amounting to \$90,000 composed of: <ul style="list-style-type: none"> ➤ ECM: \$200,000 ➤ Subsidies: \$150,000 ➤ Infrastructure: 150,000 ➤ Revenue: -410,000 |
| Step 3 – Apply LNB Formula | Assume: <ul style="list-style-type: none"> ➤ Base expenditure / census child (provincial average) = 570 ➤ Local Needs Based Score = 0.786 ➤ Child population = 105,000 Therefore, result of applying the Local Needs Based Formula ➔ = \$570 x 0.786 x 105,000 = \$47 million | Assume: <ul style="list-style-type: none"> ➤ Base expenditure / census child (provincial average) = 570 ➤ Local Needs Based Score = 1.84 ➤ Child population = 20,000 Therefore, result of applying the Local Needs Based Formula ➔ = \$570 x 1.84 x 20,000 = \$21 million |
| Step 4 – Add Back Pre-Formula Adjustments and Calculate Proportionate Share | \$47 million + \$200,000 = \$47.2 million Assume sum of Step 3 and 4 for <u>all CASs</u> is \$1.2 billion, then Agency A’s proportionate share is: \$47.2 million / \$1.2 billion = 3.93% | \$21 million + \$90,000 = \$21.9 million Assume sum of Step 3 and 4 for <u>all CASs</u> is \$1.2 billion, then Agency A’s proportionate share is: \$21.9 million / \$1.2 billion = 1.83% |
| Step 5 – Make Post Formula Adjustments | Assume: <ul style="list-style-type: none"> ➤ \$1.3 billion in total funding available (after allowance for Aboriginal agencies) ➤ \$20 million set aside for post-formula adjustments ➤ Agency A is eligible for \$100,000 in post-formula adjustments Then, Agency A will receive: Its initial “proportionate share” of available funds ➔ 3.93% of (\$1.3 billion - \$20 million) = 3.93% of \$1.28 billion = \$50.3 million PLUS, post-formula adjustments ➔ \$50.3 million + \$100,000 = \$50.4 million Final Allocation ➔ \$50.4 million* | Assume: <ul style="list-style-type: none"> ➤ \$1.3 billion in total funding available (after allowance for Aboriginal agencies) ➤ \$20 million set aside for post-formula adjustments ➤ Agency B is eligible for <u>no</u> post-formula adjustments Then, Agency B will receive: Its initial “proportionate share” of available funds ➔ 1.83% of (\$1.3 billion - \$20 million) = 1.83% of \$1.28 billion = \$23.4 million With no addition for Post-Formula adjustments Final Allocation ➔ \$23.4 million* |

*The above examples are illustrative and represent fictional agencies.