
2005 BRIEFING NOTE – Service Impacts of reducing the \$72.3 million provincial cost-sharing shortfall from the 2005 City budget.**Budget Advisory Committee, January 28, 2005**

Purpose:

To provide information regarding the service impacts of removing the \$72.3 million (projected 2005) provincial cost-sharing underpayment for social services, shelter per diems, and EMS which will have to be funded by the municipality, as identified in the 2005 budget, and on the status of the previously reported shortfalls in child care and public health.

Key Messages:

- The impact of the provincial funding cap on cost-shared programs and increasing provincial program costs that the City must share is placing an increasingly unsustainable financial burden on the City. For 2005, the City is faced with an estimated \$72.3 million shortfall.
- The City and the province must arrive at an equitable agreement on cost-sharing for social programs based on funding from an appropriate tax base for income redistributive programs and a commitment from the province to honour the cost-sharing for the actual costs of service management, delivery and administration. Council has approved this position in December 2004.
- Without this commitment, the municipality is running out of options. It is neither appropriate nor feasible to fund these increasing expenditures from the property tax base, however the demand for these services, their mandatory nature, and the degree of provincial oversight and scrutiny in the delivery of the program has resulted in increasing program and administration costs since Provincial capping began in the early 2000's. Further, as illustrated by this note, the level of cuts required to reduce the City's net to re-balance cost-sharing would result in unacceptably reduced services placing the City and many of its residents at risk

Background:

- The pressures on Toronto that occurred in the latter part of the 1990's as a result of amalgamation and provincial downloading of services were compounded for municipal social programs by a major reorganization of roles, responsibilities and cost-sharing initiated by the provincial government as a part of Local Services Realignment (LSR);
- Under LSR, Toronto and other municipalities became, in provincial terms, Consolidated Municipal Services Managers (CMSM). CMSMs are responsible for delivering social programs under a provincial policy and legislative framework that increased local expenditure obligations and decreased local flexibility in areas such as development of locally-determined program strategies and conditions under which clients may access assistance and services;

- Expenditures increased due to provincial capping of cost-sharing formulas or because the province does not recognize and, therefore cost-share the actual cost of service delivery of Toronto's programs. As well, the province continues to increase certain downloaded program costs, e.g. Ontario Drug Benefit (ODB) and Ontario Disability Support Program (ODSP)
- In addition to the cost-sharing shortfalls, GTA pooling revenues for Ontario Works are declining, and unpredictable. Attached is the briefing note on GTA equalization which outlines the extent of the issue.
- The result is that, in programs areas where funding is approved at the provincial level, the provincial contribution is steadily declining with respect to the proportion of total costs that should be covered under legislated cost sharing agreements (e.g., services funded on an 80/20, or 50/50 basis).
- In November 2004, the City reported a projected \$71million base cost-sharing shortfall for 2004. This was based on the best information available at the time with respect to actual caseload and subsidy calculations. At this time, as we move closer to reconciling the books for 2004, the projected base cost-sharing shortfall has been revised to \$64.5 million. The table at the back of this briefing note outlines the extent of the shortfall, based on year over year actuals since 1998. It also identifies the budgeted shortfall for 2005.
- The 2005 budgeted shortfall in provincial/municipal cost-shared is projected at \$72.3 million. If the municipality were to reduce its net contribution to the programs by the amount of this shortfall, the following impacts would occur:

Toronto Social Services (TSS):

- Cost of Administration (COA) Shortfalls:

The gross estimated COA in 2005 is \$154m (\$77m each City/Province), resulting in a Provincial shortfall of \$24.6M in the 2005 budget.

Previously, the Department funded this shortfall with available incentive funds and other one-time provincial revenues, resulting from discussions with the Province. These additional revenues are no longer available in 2005.

The implications of absorbing the 2005 COA shortfall would mean devastating cuts to provincially mandated functions and associated costs in the OW program delivery system as follows:

- Reduction of 45 staff in Quality Control and Compliance, which provides internal audit function and compliance with provincial legislation related to client eligibility and entitlement
- Reduction of 25 staff in Fraud Prevention and Control which ensure OW program integrity through systems and expertise to detect, prevent and prosecute client and staff fraud

- Reduction of 20 staff in financial management and control responsible for management and oversight of all financial processes within the Division including budgets, payment processes, subsidy claims and agency contracts
- Reduction of 50 staff in information and technology and business support required to maintain maintenance of mandatory provincial technology (SDMT) and telephony systems required to deliver Ontario Works and provide management control reports
- Reduction of 140 staff in direct client service and support responsible for determining eligibility and providing direct benefits, services and employment support to clients as per the Ontario Works Act

This loss would cripple TSS' ability to manage service delivery and administer the OW program. As a result, the City would incur penalties for contravening the legislation, including claw-back of the Provincial 80 per cent program funding on cases deemed to be non-compliant with legislated requirements. Any cuts beyond the \$24.6M would result in a corresponding loss of COA cost-shared provincial funds, from its capped amount of \$52M.

- ODSP (\$9.2M)/ODB(\$5.9M) Shortfalls:

ODSP and ODB are downloaded costs for programs delivered by the Province. The municipality has no control over these expenditures and no ability to withhold its share of funding. Therefore, any reduction would have to be absorbed by further cuts to the City's administrative funds.

Cuts required to address this \$15.5 million pressure in 2005 from these areas would require cutting a further 200 staff in the direct client service and support area. Cuts of this magnitude will have direct and severe implications on Social Services ability to undertake provincially legislated responsibilities such as eligibility review, annual financial verifications reviews, intake verifications and employment information at application.

The impact on the clients would be:

- Longer wait times to receive benefits, including wait times for those clients making emergency requests.
- Inability to provide caseload management including mandatory employment programs, thus increasing program dependence and program and benefit costs.

By eliminating most program oversight and compliance functions, including those required to satisfy Provincial and City audit for program review requirements, service delivery contracts and service obligations, the City would be at risk of being financially penalized by the Province for failing to meet Provincial program integrity and performance standards (as per OW legislation and directives).

In short, absorbing COA shortfalls and Provincial downloads would require unsustainable cuts in the investment in program delivery and loss of 480 staff, a significant of whom carry out front-line delivery functions. This will cripple TSS ability to fulfill its OW program delivery responsibilities, resulting in a loss of provincial COA subsidy, claw-back of subsidy paid to clients, and the inability to manage the caseload and control social assistance costs.

TSS is continuing discussions with the Province on COA funding base and downloaded costs.

Shelter per diems (\$22.8M)

The Ontario Works Act provides the Hostel Services Unit of the Shelter, Housing and Support Division with the authority to provide “emergency hostel services which means the provision of board, lodging and personal needs to homeless persons on a short term, infrequent basis.”

The Ontario Works Act provides the legislative framework for the provision of emergency shelter services and sets out the subsidy arrangement that specifies an 80% provincial and 20% municipal cost-sharing. The 2004 actual cost-sharing is 57.3% provincial and 42.6% municipal. The Ontario Works Act does not impose a set cap for the cost-sharing for these services. The cap of the cost-sharing for shelter services is outlined in policy directives from the Province of Ontario, Ministry of Community and Family Services. The policy directives identify a set cap for each night of hostel service provided but does not impose a cap on the overall nights of service a municipality is able to claim. The per night cap is set at a lower rate than Toronto’s real costs. The resulting shortfall is estimated at \$22.8m for 2005.

The components of the shelter system are highly interactive and staff would use a variety of strategies to cover the \$22.8M shortfall, while attempting to mitigate the worst impacts. There are two main options for achieving savings: reducing volume of use within the sector and reducing the levels of service

Reducing volume to a level of \$22.8M could be achieved through such strategies as:

- closure of three large shelters totaling 1,094 beds (the simplest option) or
- elimination of entire service sectors i.e.: closure of all women’s and youth sectors or
- seasonal closures of facilities for 30% of the year (the months of June, July, August)

Reducing service levels could be achieved by taking such actions as:

- closing facilities receiving high per-diems or
- reducing per-diems across the board or
- closing high cost specialized programs within sites such as transitional shelter, harm reduction, pregnancy support program, central family intake or
- directing facilities to reduce level of services available i.e.: daytime closures, cancellation of children’s/recreational programming, cancellation of counseling services.

Strategies for both options may be used alone or in combination to achieve the shortfall reduction targets and, depending on which are used, could have the following impacts:

- increase in street homelessness
- adults and children left in inadequate and dangerous housing conditions
- women, children and youth remaining with abusive partners/parents
- closure of non-profit service delivery agencies in order to avoid large operating deficits. Staff estimate that approximately 1/3 of community agencies or approximately 25 programs would close.
- longer stays in the system due to lack of supports to assist in return to housing
- return to warehousing of homeless individuals in large institutional environments

- staff layoffs in City and community agencies and accompanying severance or termination costs. Number of staff who would be laid off would vary depending on scenario pursued but would likely be in the 300 – 400 person range.

Emergency Medical Services (\$9.8M)

EMS shortfall occurs for two reasons:

- There is a provincial cap on cost-sharing of wages and salaries that is below the provincially arbitrated settlement to the Toronto EMS workforce; (\$5.8M)
- EMS hired 52 unfunded paramedics. (\$4.0M)

If the City were to remove the \$9.8M shortfall from the 2005 budget, EMS would lay off up to 125 paramedics and close up to 8 ambulance stations. The City would have to deny service based on caller immediate need, which is in violation of provincial legislation.

Strategy Recommended

There is some good news: new provincial funds have reduced the Toronto Public Health shortfall to the extent that it can be managed internally. Federal funding flowed from the province via the Multilateral Framework Initiative for Early Learning and Child care has allowed Children's Services to stop the loss of child care spaces and emerge from 2004 with no real shortfall. This will continue to 2006 if the federal and provincial governments sign a new early childhood agreement and Toronto is allowed flexibility to use some of the new funding to meet local needs such as covering inflationary costs and expanding services for all age groups. The City is seeking assurances on both the staff and political levels that such flexibility will be forthcoming.

At the November 30, 2004 meeting, Toronto City Council directed that the City:

- request that the province recognize the actual costs of Ontario Works program delivery and administration and fund 50 percent of those costs;
- achieve predictability for ODSP and ODB expenditures by requesting that the province immediately provide reasonable projections for the cost of benefits and ODSP administration for the City's 2005 budget;
- seek 100 percent provincial funding to cover all unforecasted increases in ODSP and ODB expenditures;
- repeat the request that the province recognize the actual costs of shelter per diems and increase its cost-sharing of shelter per diems consistent with those actual costs;
- request that the province fund 50 percent of the EMS salary increases at the five percent rate agreed to by the arbitrator and recognize, for cost-sharing purposes, the other salary and non-salary costs required to run the program; and
- request that the province provide transparency and timeliness with respect to the reconciliation of annual pooling revenues for Social Assistance.

These strategies are aimed at obtaining short-term budget relief in 2005 from pressures due to provincial funding shortfalls and unanticipated increases in provincial program costs in cost-shared programs, in short, extricating Council from the position of having to decide between additional funding and service cuts.

- Council also directed that the CAO and CFO/ Treasurer prepare a report, in consultation with the Commissioner of CNS and Acting Commissioner of WES, for consideration by the Policy and Finance Committee in early 2005 regarding long-term options for ensuring sustainable funding for Toronto's cost-shared social programs, including a more appropriate division of responsibility for funding these programs, improved revenue strategies and the funding tools appropriate to the City's responsibilities for funding income redistributive programs.

This report will come to the March, 2005 Policy and Finance Committee.

Conclusion:

Shortfalls in provincial payments for cost-shared social programs are a significant and growing budget and long-term fiscal pressure on the local property tax base. The total shortfall in 2004 is currently projected at \$64.5 million and is estimated at \$72.3 million in 2005.

Provincial cost-sharing shortfalls create fiscal and financial pressures for the City, decrease the City resources available for other programs and hamper the City's ability to provide social programs for residents.

Council has adopted short-term strategies for obtaining 2005 budget relief . A report outlining long-term strategies for the funding of municipal social programs will be submitted to Council in March, 2005.

Summary of Shortfalls										
For The Years 1998 to 2005										
			Budget Shortfall to Actual [(Favourable) / Unfavourable] - in millions							
			1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Projected Actual *	2005 Budget
Social Services :										
ODSP				(4.3)	1.6	(2.9)	(1.9)	2.2	11.4	9.2
ODB/Other Mandatory Programs				0.6	2.1	1.6	1.6	5.9	4.9	5.9
OW Cost of Administration				0.0	0.0	0.6	5.1	12.2	16.5	24.6
Total Social Services			0.0	(3.7)	3.7	(0.7)	4.8	20.3	32.8	39.7
Shelter per diems			2.4	6.1	11.6	7.2	13.3	17.1	21.9	22.8
Children's Services			0.0	0.0	0.0	0.0	1.2	1.8	0.0	0.0
Toronto Public Health									0.8	
Emergency Medical Services				0.7	(0.017)	0.7	5.7	6.4	9.0	9.8
Total:			2.4	3.1	15.3	7.2	25.0	45.6	64.5	72.3
Note: *	Projected year-end actuals are subject to change upon year-end final reconciliation.									

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