New Financial Reporting System - Part II

CHILDREN'S WELFARE ASSOCIATION OF VICTORIA

GRAHAM WITHERS

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INTRODUCTION

The first part of this article, describing the financial reporting system, the Children's Welfare Association of Victoria has developed for Victorian Child Welfare Agencies, explained the motivation in setting the system up, the objectives and achievements of the system, and gave some broad information about funding proposals that have stemmed from the analysis of financial data through the system.

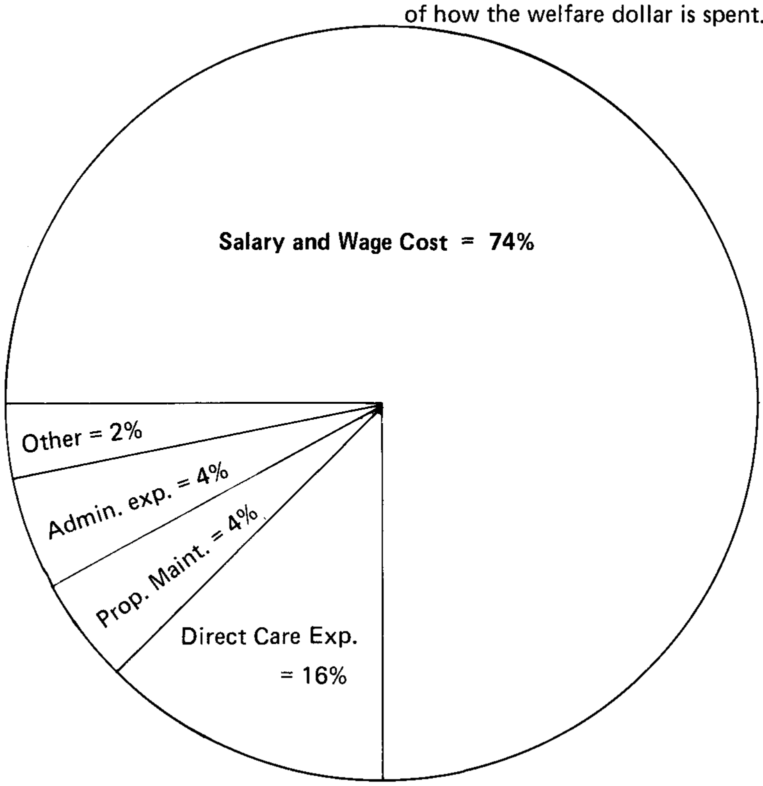

Figure 1: 1981 / 82 Average Expenditure

The purpose of this second part is to acquaint the reader with some of the figures that the system has brought to light, and what specific funding propsals have been put together as a result of those figures. This will allow welfare agencies in other States to compare their costs of providing residential child care to the Victorian averages and make some comparisons with other welfare programmes. New England University has provided, through similar analysis, a whole range of comparative financial results for industry and professional fields. For the first time the welfare field has some kind of "cost standards" to relate to, and the public, some idea of how the welfare dollar is spent.

OVERALL FINANCIAL RESULTS FOR 1981 - 1982

Although the main analysis is based on gross dollar values, this has little meaning to the casual reader and so income and expense within child welfare agencies will be described in percentage terms, or as a cost per child, per week. First, the paper looks at the way expenses are incurred across a normal agency. As a percentage of total operating

expenditure, salary and wage cost is naturally the largest at 74%. Next, logically there is direct expenditure on the maintenance of children in care including heating and power to their residence, clothing, provisions, education expense, recreation, pocket-money, travelling expenses, etc., and this group of expense in total adds to 16% of total expenditure. Following these two major groups of expenses comes property maintenance expense which includes minor capital expenditure and adds to 4%. Then it was found that general administrative expense (excluding administrative salary and wage costs), amounted to 4%, and some other minor expense made up the balance of expenditure at 2%. (Refer Figure 1).

The question has often been asked, regarding the proportion of direct care staff cost as against support staff cost (such as social workers and education officers), as against administrative staff. As mentioned in the previous article Children's Welfare Association of Victoria has been unable to dissect fully administrative costs from child welfare support costs. However, our analysis does show that in the area of salary and wages, at least 71% of total expenditure in this area is incurred in employing direct care staff.

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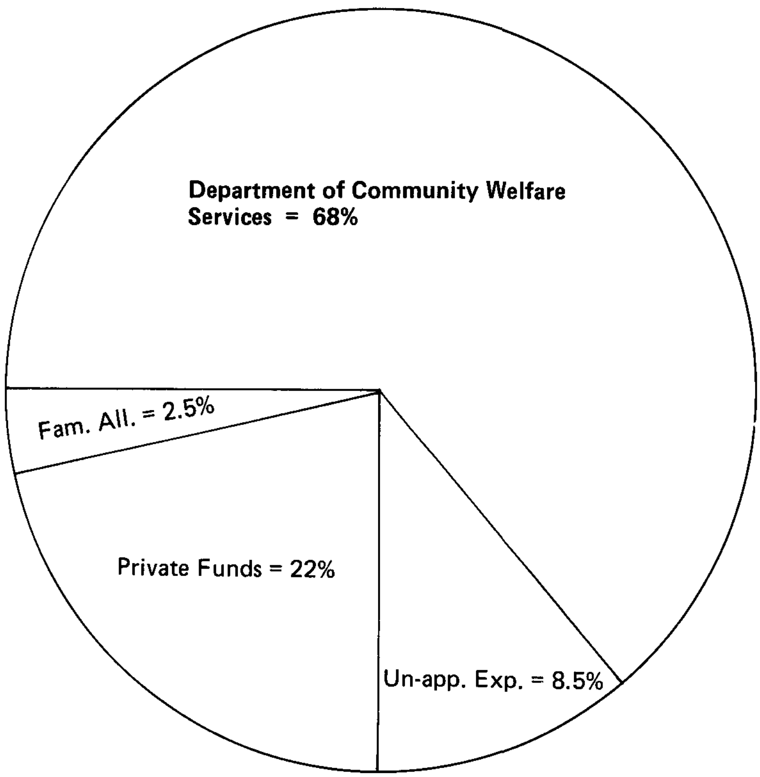
THE COMPOSITION OF FUNDING RECEIPTS

In 1975 when the existing funding formulas were established for all Victoria Child Welfare Agencies it was considered that a voluntary agency could raise 10 - 15% of their total expenditure from private sources. From this was derived a committment to meet 85% of approved expense from Government sources. Our analysis shows that in 1981 - 1982, this funding of approved expenditure had dropped to 78%. This means that the average agency has now to find a minimum of 22% of their expenditure from private sources plus private funding for any of their expenditure that is defined as unapproved by Department of Community Welfare Services.

THE COMPOSITION OF DEFICITS

The sheer size of the voluntary child welfare field in Victoria means that some of the percentages quoted here amount to sizeable sums of money. For instance, the single largest contributor to welfare agency deficits is non-approved wage expense which represents 8.5%. This in turn represents in excess of $1.5 million per annum in 1981 - 1982 dollar terms. On the other hand non-wage expenditure adds to $4.7 million per annum and as only 32% of this is met by Department of Community Welfare Services non-salary and wage expense funding, this area of expenditure adds substantially to welfare agency deficits.

Figure 2: 1981/82 Average Receipts



This level of funding is made up of the following components. 68% of total expenditure is met by the Department of Community Welfare Services in the form of salary subsidies, per capita maintenance subsidies, and repairs and maintenance grants. The Commonwealth Government meet another 2.5% of expenditure through family allowance, grants, and approximately another 8% of total expenditure is met from a variety of private income sources and specialised Government Grants which together meet expenditure on areas not approved for programmatic funding. This still leaves a further 22% of expenditure to be met from private sources (Refer Figure 2)

COSTS PER CHILD PER WEEK

In part one of this article, a table indicated that total direct expenses on a per capita basis average at around $179.00 per child for direct expenses of which $140.00 was salary and wage costs and $39.00 non-salary and wage expense. Further analysis showed that in the area of non-salary and wage expense this figure was an under-estimate. and in fact the average expense in 1981 - 1982 dollars ended up being $47.00 per child per week. However, it was also discovered that there was a wide variation in these non-salary and wage expenses between different welfare programmes. Thus, we came up with a range of expense from a low of $39.00 per child per week, to a high of $67.00 per child per week. It was found that the criteria having the greatest impact on the level of costs was the age of children in residential care, and if children were under 12 years of age their average cost of upkeep was approximately $41.00 while if they were teenagers their average cost was more likely to be $66.00 per week.

CARE UNIT COSTS

Part one of this article suggested that some costs increased or decreased by the number of care units agency operated rather than by the number of children in care. These costs are described as indirect semi-variable expenses. Our analysis shows that even without children in a care unit, it costs an average $83.00 per week to maintain that care unit, excluding any wage costs associated with this. This cost per care unit can be further broken down into three groups. Around 40% of this cost per care unit is taken up by property maintenance expense, and a further 38% can be attributed to administrative type overhead expenses. Finally there is a further 22% that can be categorised as ancillary expense such as public relations and appeal expenses, depreciation calculated on furniture and fittings, motor vehicles etc. There has been some reaction against costing these indirect expenses as a cost per care unit rather than a cost per child in care, on the basis that you then cannot add together direct and indirect costs on a unit basis. If such an addition is essential, it has been calculated that these indirect expenses run at around $26.00 per week per child, but this figure only has validity if the number of children in care is static over a lengthy period of time.

THE FUNDING PROPOSAL SUBMITTED IN MAY 1983 TO THE MINISTER OF COMMUNITY WELFARE SERVICES

As a result of the above analysis Children's Welfare Association of Victoria's funding sumbission incorporated a range of recommendations relating to "old policy" items and "new policy" items. The distinction was necessary as the Department of Community Welfare Services already had a committment to honour the 1975 funding formula arrangements and any increase in funding to meet this could be described as "old policy" items. On the other hand member agencies of C.W.A.V. required additional funding beyond this 1975 funding arrangement because of the additional pressures that had come to bear on welfare agencies since that time.

OLD POLICY ITEMS

It was therefore recommended that subsidies to residential care agencies be adjusted so that Government income met 85% of standard costs, as defined. Further, it was recommended that this be made up of the following components:—

1. Funding at 90% of salary and ancillary expense as related to approved staffing positions presently held by agencies.
2. A repairs and maintenance grant at 50% of normal expenditure in this area, with Youth Hostels maintaining their advantage on this of 66 2/3%,
3. A per capita subsidy based on standard direct care costs, and standard non-direct care costs.

The former should be paid at a rate per child in care, and the latter at a rate per care unit in operation. Together subsidies under 2. and 3. should fund 65% of standard costs being funded. Finally, it was requested that the per capita subsidies be based on standard costs classified and differentiated by the Children's Welfare Association of Victoria criteria, primarily the difference in costs consequent upon caring for children of different ages.

NEW POLICY ITEMS

Based on the presumption that the services within the residential care area are statutory services, being the direct responsibility of the government to provide, member agencies requested funding at the rate of 100% of approved costs. It was accepted, however, that it would take several years to achieve this position and so recommendations to achieve this were put forward within the following time frames:—

1. That from July 1st, 1983 the subsidy rate applicable to direct care staff, i.e. cottage parents / domestics, be increased from 90% to 100%. In addition to the present approved expense in this area, a subsidy should be payable on superannuation expense and a grant equivalent to 2½% of the approved staffing position expense be provided to assist with training and staff development costs. It was also agreed that the existing differential per capita subsidy rate between statutory and non-statutory clients be removed. At present non-wards receive only half the ward per capita subsidy rate. Further, it was agreed that the per capita subsidy rate should be CPI adjusted retrospectively following the publication of each quarter's CPI movement. In respect to the existing repairs and maintenance grant, it was considered that the grant should be increased to 75% of expenditure on those specific essential items over which a welfare agency had no freedom of choice. Finally, it was requested that all subsidies be paid at the beginning of each month rather than in the month following the incurrence of the expense. Refer to Figure 3 for an agency example of this.
2. That from July 1st, 1984 the subsidy rate applicable to standard direct care costs through the per capita subsidy be increased to 100%. This recommendation does not imply that all non-salary and wage expense be funded at 100%. Rather, Childrens Welfare Association of Victoria would continue to analyse, through the standardised reporting system, what was the standard direct care cost within each defined programme area, and this level of expense would attract the 100% subsidy. Therefore, continue to fund expenditure of a specialised nature including the cost of employing staff to improve welfare standards or develop innovative welfare programmes.

DEFINITIONS USED WITHIN THE FUNDING PROPOSAL

Early within the negotiating process it became clear to Childrens Welfare Association of Victoria that the funding base, set by the 1975 funding arrangement, was under threat because of a lack of definition. Therefore, a lot of effort went into developing definitions that reflected this arrangement and then further clarifying where welfare funding stood in the present. For instance, it was agreed that direct care staff would be confined only to those staff employed within a residential care unit as either rostered child care workers, cottage parents, or domestic assistants. An essential definition was that of government income. Clearly, government funds that come into the hands of a welfare gency for transfer to a welfare client do not come within the definition of income

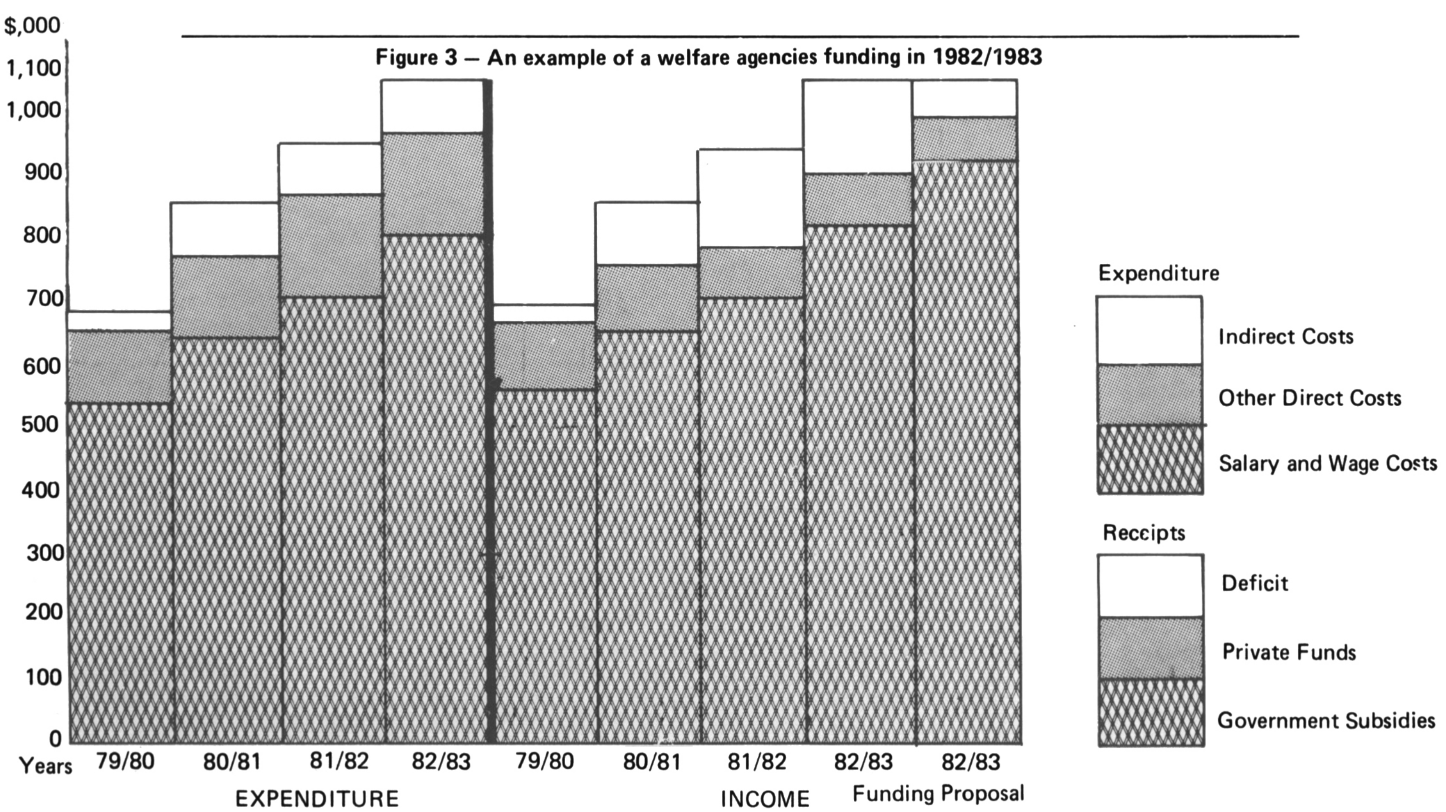


Figure 3 — An example of a welfare agencies funding in 1982/1983

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but are rather "transfer payments". Similarly, there are some government grants available to welfare agencies which are also available to the public at large (such as education grants), and therefore do not fund residential care as such. Thus, they should not be included as programme funding for residential child welfare care. Family allowance payments received by welfare agencies were not seen in this light by Community Welfare Service executives who saw this as a direct offset to their Department's funding responsibility. Although the process of working through many of the definitions were very tedious, it was agreed that the exercise was valuable if a sound base was to be created for the development of future funding arrangements. Childrens Welfare Association of Victoria therefore recommends that any group of welfare agencies wishing to negotiate a revision to their funding base, should first research and scrupulously document the definitions to be used within the negotiations.

THE RESPONSE BY GOVERNMENT TO THE STANDARDISED REPORTING SYSTEM, AND THE CHILDREN'S WELFARE ASSOCIATION OF VICTORIA FUNDING APPLICATION

The response by officers to the Department of Community Welfare Services to the standardised reporting system was very positive, at all stages. It was acknowledged by all parties that the reporting system had created a clear financial picture of the state of voluntary child welfare agencies in Victoria, for the very first time. It was also agreed that this picture could be used as a sound base for future welfare programme development, by linking it into the Government's commitment to Programme Priority Budgeting.

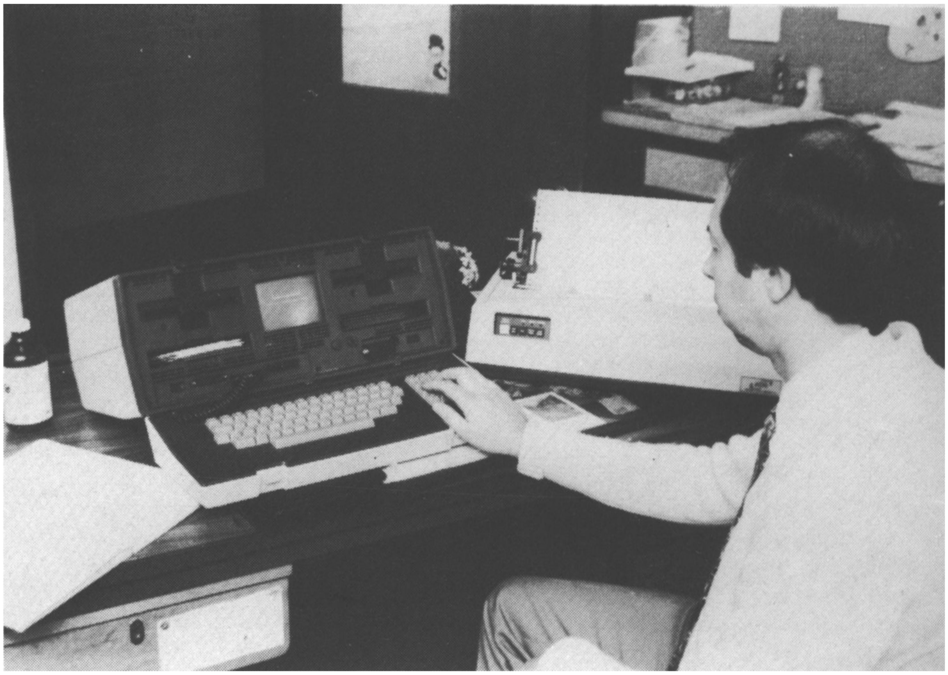
In respect to Children's Welfare Association of Victoria funding proposal, the legitimacy and equity of most of the recommendations were accepted as being proven by the financial analysis, as submitted. However, in an economic climate of welfare cuts rather than welfare service expansion, it was not necessarily accepted that the government could afford the increases in funding proposed. As at the 30th June, from the Minister for Community Welfare Services in respect to the Department's final position on the recommendations but it was suggested by Departmental personnel that the additional $2.5 million required to meet the recommendations for the 1983 - 1984 year was unlikely to be found. The question therefore remains — How long can welfare agencies in Victoria remain financially viable?

Our latest analysis shows the following trends:—

Average direct care costs per child in care 1981 / 1982		$187 per week
Average direct care costs per child in care 1982 / 1983		$238 est.
Increase	=	$ 51
	or	27 %
Increase in Government Funding	=	18% est.
Therefore, increase in private funding needed	=	9%

As in 1981 - 1982 private funds met $4.7 million of expenses, this means that an additional $426,000 has had to be found in 1982 - 1983 and, with the compounding affect inherent in such a funding arrangement, over $500,000 extra will be needed in 1983 - 1984.

Therefore, one can only conclude that without a revision in the funding arrangement to close the gap between total expenses, and government income, it will only take a few more years for inflation to outstrip welfare agency capacity to raise private funds. Then we will have to face the alternative of cutting back welfare services, or reducing the welfare standards all have fought so hard to establish.



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