

ROMANIA

Review of Cost Methodology Child Protection System

*Study performed by KPMG in 2006,
contracted by UNICEF Romania
in partnership with the National Authority for the Protection of Children's Rights*

Context

The National Strategy developed by the National Authority for the Protection of Children's Rights (NAPCR) / Ministry of Labor, Social Solidarity and Family (MoLSSF) end of 2005, represents a coherent policy for the promotion and protection of children's rights and addresses beside emerging issues, the gaps to be filled in, in order to develop a effective and efficient system for the protection of the rights of all Romanian children.

A major concern related to the implementation of the strategy and its attached National Operational Plan is related to the capacity of the public administration authorities for the identification and implementation of most efficient and effective interventions. Nevertheless, strengthening the capacities needs to be based on child centred strategic choices which allocates and uses resources following the in-depth analysis of needs and demands. Having this new approach as guiding principle of the design of future interventions in the area of child protection, collection of evidence based information related to the cost-effectiveness of the actual system, including average costs per child care and services, and development of efficient tools for resource allocation, are set as expected results for the 2006 activity of the NAPCR.

In this regard, UNICEF in partnership with NAPCR agreed upon performing an evaluation having the main objective, the assessment of the structure of expenditure within the social assistance/ child protection system by type of service provided.

Specifically, the study will provide the following:

- Present the current status of social protection expenditures system:
 - Review main ratios used by National Authority for the Protection of Children's Rights
 - Present main characteristics of beneficiaries.
 - Present main social services problems as identified in the NAPCR reports.
 - Present the national trend in social protection budget allocation.
 - Develop a summary of findings and recommendations based on the information gathered in previous stage.
- Review of the financial methodology used in institutions which provide social assistance in:
 - Review the computation of average costs "per child" for each type of care, as per central and local authorities statistics. The review will cover a sample of eight counties out of 47 throughout the country.
- Provide the starting point for the impact analysis and the basis for further recommendations underlying the decisions of the authorities' on more effective and efficient budgetary allocations for the child care system
- The study will provide advocacy material for promoting children rights through more equitable allocation of budgets.

Key findings / Review of financial methodology

1. Computation of average cost per child

1.1. The features of cost accounting system are defined by national legislation for public institution. This accounting is different from the one used by commercial companies:

- Public institutions are using treasury accounting (by presenting receipts and payments), while;
- Commercial companies are using accrual accounting.

The financial statements presented by the general Direction of Social assistance and Child Protection (GDASPC) do not present the cost incurred by the child protection when efforts are made, but when the money is spend.

1.2. The information system does not collect the raw data to be further analysed as in a managerial accounting system (where we could split de costs between direct and indirect costs):

- Direct (variable) costs are those costs that fluctuate directly with the changes in the number of children in the protection system;
- Indirect (fixed) costs remain relatively constant through the period, without changing in proportion to the number of beneficiaries.

The current cost accounting system used by GDASPC does not allow the analysis of indirect costs (such as salaries for staff working in the financial departments) incurred in the social protection system.

1.3. There is no efficiency analysis performed at the NAPCR level to identify the gap to the costs benchmarks and related quality standards. NAPCR does not perform comparative analysis using the monthly reports. The analysis of costs by nature reveals significant differences between counties, even for the costs regulated through special laws.

Costs classification by type of services

The protection services provided to children can be classified based on several criteria in accordance to the legislation, but there are different approaches of the decentralized authorities at local level – General Directions for Social Assistance and Child Protection – when they are reporting the related costs per services.

The cost based classification reveals that for several categories of children placed in the protection system, the only cost incurrent represents the salaries of monitoring personnel at the level of GDASPC.

The analysis of costs by nature reveals significant differences by counties. Specific statistics show high variances of the individual average. Certain averages should stay in a limited interval as far as costs are regulated through special laws (e.g. food), but the actual figures present different values, which would need further investigation.

2. Budget allocation

2.1. In recent years, expenditure of the child protection system is incurred based on budget allocation from several sources:

- State budget: app. 75% in 2004 and 2005;
- County Council budget;
- Local council Budget;
- Donations and sponsorships.

The financial statements prepared by the selected GDASPCs present only the contribution of State budget, in compliance with the statutory accounting principle. The split between contributions of county councils, local council and donors is not centralized at national level for public institutions. It appears, however, that the county councils are the main contributors after the State budget. It appears that there is no consistency in GDASPC reporting of donations and sponsorships.

The state budget allocated to the child protection system appears to not follow the protection principles as the money is allocated as a total without a functional split which would mirror the services to be delivered.

2.2. In 2005 the State Budget allocation was later during the year increased by 25%. Had the allocation remained unchanged, it would have covered only app. 60% of the child protection system expenditure in 2005. The increase in allocation brought State budget contribution back to the 75% level of 2004.

In 2006, the State Budget Law proposes an allocation covering 55% of the child protection expenditure.

2.3. The allocation form the State Budget towards the county departments is currently not connected to a functional cost reporting system. In two directions:

- Upwards – as a supporting tool to build the budget in order to satisfy the qualitative objectives of the child protection system (i.e. to ensure sufficient funds for all services);
- Downwards – the related cost control function is missing.

3. Financial reporting

3.1. As GDASPC are public institutions subordinated to County Councils, their accounting and reporting systems are designed to serve mainly (and sometimes exclusively) the accounting and reporting systems of the County Councils.

There is a gap between the financial reporting currently performed by all GDASPCs and the analysis requirements of NAPCR or other independent institutions interested in the child protection system.

The financial reporting do not present the results achieved by the protection centres when trying to comply with the social protection system principles.

3.2. Financial information regarding expenses for child protection is available at the following level (from the most to the less detailed):

- Child protection service level, where services for which minimum compulsory standards are to be issued;
- Multi-service centre level, if the case: although such centres are not presented in the current legislation, it is very common that more than one service is rendered by the same centre;

- Group of centre, either similar or situated in the same town, when the management of the GDASPC considers that this consolidation makes accounting and reporting easier;
- Child protection department within GDASPC, sometimes including also the administrative expenses (expenses incurred at GDASPC level) relating directly to child protection services;
- GDASPC level, as stipulated by legislation in force: Appendix to the financial statements.

3.3. When GDASPC use the reporting format of public institutions, expenses with different natures are sometimes aggregated in the same caption.

For example, school stationary, transportation expenses and pocket money are aggregated under the “Social subsidies / social rights”.

As the breakdowns by expenses by nature was not customise to satisfy child protection reporting needs, large figures can be found under the “Other expenses with materials and services”. No further details are usually easily available.

The reporting “Total Materials and Services costs” for child protection, GDASPC include one-off costs (such as repairs) together with recurring costs (i.e. food, utilities, clothing), as no clear split between these two large categories is made.

3.4. The accounting framework used by public institutions until January 2006 (including GDASPC) was mainly cash-based:

Public institutions report both:

- Payments made during the years, and
- Expenses incurred;

The main focus was placed however on payments;

As the accrual principle was not thoroughly observed, the reliability of expenses reported is not considered of high significance even by GDASPC accountants.

3.5. Until December 2004, GDASPCs were to complete each month a reporting package comprising:

- Number of children in each protection centre: as at the beginning of month, in, out, as at the end of month,
- Monthly costs for each protection centre (personnel, materials and services – broken down by nature).

According to NAPCR representatives, starting January 2005, due to lack of personnel, NAPCR requested the GDASPCs to send these reporting packages only:

- Quarterly,
- For the number of children, as specified above.

3.6. NAPCR issued several minimum compulsory standards but there is no control over the actual expenditure or over a comparative analysis of costs between the counties.

No official estimation was made so far either NAPCR or GDASPC. (e.g. according to officials at GDASPC of one county, a rough estimate indicates standard costs to be twice actual costs).

Recommendations

1. Starting point for budgetary allocations

- 1.1.** The allocations from the State Budget towards the county departments must be structured and linked to a functional cost reporting system. The structure should ensure the information and report flows in two directions:
- Upwards – as a supporting tool to build the budget in order to satisfy the quality objectives of child protection system (i.e. to ensure sufficient funds for all services),
 - Downwards – the central-level institutions responsible for controlling and monitoring should have all information necessary for efficient decisions.
- 1.2.** The methodological standards set by NAPCR should be reflected in the State Budget structure prior the approval. They should be accompanied by related analysis and forecast presentations. Compliance with these standards would mean recurring costs (i.e. standard costs), which are generally forecast much higher than actual costs, as far as the actual expenditure are limited by the State Budget.
- 1.3.** A better budgeting system should be based on accruals principle and structured in relation with the protection principles which often have a qualitative feature.

2. Definition of strategy items

2.1. Milestones

New strategy to be implemented and monitored by a national authority should have the following milestones:

- Cost accounting system,
- Efficiency targets (quantitative and qualitative),
- Performance reporting system.

The strategy may be formalized at the Governmental level to avoid double reporting and dilution of quality principles.

- 2.2.** According to new legislation (Law 47/2006 on National Social Assistance System), a new central-level will be created: the Social Inspection, subordinated to the MoLSSF. Starting 1st January 2007, the Social Inspection will take over all responsibilities regarding inspection (together with related personnel) from: NAPCR and NAPH. Under the present regulatory framework, no institution is monitoring costs incurred in the child protection system.
- 2.3.** NAPCR currently has no cost control responsibilities in the child protection system.

3. Redirection of resources to community based services

- 3.1.** According National Strategy, new legislation will be adopted, leading to the outsourcing of child protection services towards NGOs. Until 2008, outsourced services are expected to account 40-50% of the child protection system. It appears that outsourcing will not ease the burden on the State, county and local budgets.
- 3.2.** The related strategy should consider the fulfillment of all qualitative standards in all type of centres. The main objective of the transfer should be improvement in all services' quality.

Follow up the summary of findings and recommendations based on the information gathered

Analysing these recommendations, UNICEF and the NAPCR agreed that a follow-up of the findings and recommendation is needed in order to reach a coherent definition of direct and indirect costs of services and a reporting structure to be used for more effective and efficient budgetary allocations in the system.

The objectives of the new assignment would be to provide assistance in preparing a cost management system which should be used in the National Authority for the Protection of Children's Rights in order:

- provide a fair view of the costs incurred in all type of services delivered in the child protection system
- allow a better monitoring of the costs incurred in all type of protection and prevention centers
- provide average costs per child for better internal analyses.

These objectives will be achieved through recommended activities:

1. Define the components of direct and indirect costs incurred in the institutions which provide social assistance to the children registered in the NAPCR system.
2. Recommend:
 - 2.1. a reporting structure for the cost management and monitoring in the child protection system.
 - 2.2. the financial reporting templates to be used for more effective and efficient budgetary allocations in the child protection and care system. Templates would include average costs models.
 - 2.3. key performance ratios to be used in redirecting resources to community based services.