Children's Welfare Association of Victoria NEW FINANCIAL REPORTING SYSTEM [Part 1]*

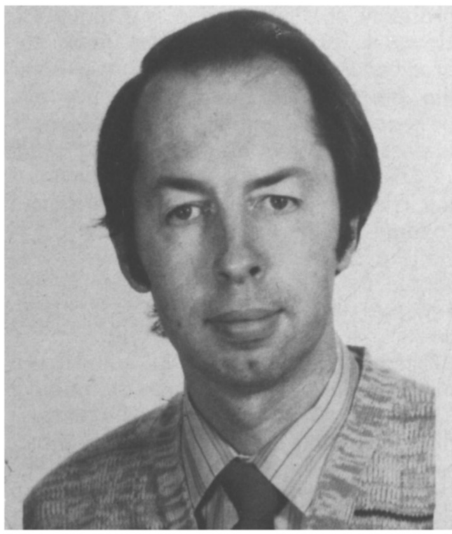
INTRODUCTION

It has been known for years in the residential child care field voluntary agencies are severely handicapped by the fact that the way one agency records its income and expenditure is quite different from the next agency. The most immediate effect is that since little sense can be made of what it really costs to keep a child in care, it is virtually impossible to organize a case as to how current government subsidies should be varied which will convince ourselves, much less the Victorian State Treasury.

In 1974 - 75, notwithstanding this limitation, the Children's Welfare Association of Victoria (C.W.A.V.), through its "Survival Committee", was able to negotiate substantial and largely positive changes to the then subsidy system, although limitations in what was developed were obvious before the new scheme was implemented. It must be recognized, however, that the "Survival Committee" belongs to another era. Here are just a few reasons why:

a. Both the nature of the pre-Survival Committee subsidy system and the amounts it provided to agencies were much more clearly inequitable than they are now.
b. In fact, Treasury can point both to the drop in residential care numbers and to the enormous rise in the financial allocation to residential care as grounds for questioning new requests for assistance.
c. Government (and community) attitudes to spending in general, and welfare spending in particular, have gradually tightened.
d. The climate encouraging greater accountability has changed and developed. Many individual agency boards are expecting more from reporting systems than they get.
e. As a result of many of these trends, Treasury itself scrutinizes even more closely than it used to submissions coming to it. It has given the clear message that it is not prepared to give in to pressure which cannot be justified.
f. The area of political discretion over funding appears to have diminished. That is, political pressure has ceased to be a substitute for hard-nosed, closely argued cases.
g. Welfare agencies (our giants in particular) have been under more public and political scrutiny. The pressure for greater public disclosure of agency affairs is growing.
h. At the same time, moves are afoot which will certainly lead to the introduction of accounting standards for the welfare industry by the accounting profession itself, probably following the international standards which are applied in virtually every other field of accounting.

The list could go on. Every item on it argues for the welfare field to take positive action for the sake of our survival as well as our positive development.



GRAHAM J. WITHERS

Graham J. Withers

In this paper the author presents a model of a financial reporting system for voluntary agencies working in residential child care. This paper forms the first part of a two part article by the author. The second part will be published in our next issue and cover details of a funding proposal, based on the model described, presented to Community Welfare Services Department in Victoria. In this first paper the author describes a fictitious agency, and presents an example of how the model can be applied. Graham Withers would be pleased to hear directly from people seeking further clarification of the model or interested in discussing the model in greater detail.

PROJECT PROMOTES REPORTING AND FUNDING PROPOSALS

To meet this reporting need and use the financial picture disclosed, a Finance and Accounting Project was established, responsible to the C.W.A.V. through a project steering committee, with the object of promoting a better funding base. This steering committee has representative membership from the member agencies of C.W.A.V. and the Department of Community Welfare Services. This Department also funded the employment by C.W.A.V. of a finance and accounting consultant for a two year span, subsequently extended for three months to end on June 30th, 1983. The full time consultant was employed in April 1981 to develop the welfare field/Departmental liaison required, along with the computer processing expertise used in the financial reporting to and from agencies, and in the testing out of funding proposals.

PROJECT'S OBJECTIVES AND ACHIEVEMENTS

The first objective was to develop a financial reporting system for children's homes and youth hostels that would provide an annual report that met Departmental accountability requirements, with quarterly reports to C.W.A.V. for analysis against funding proposals. A major analysis of the 1981/82 picture is currently being finalised.[1]

Part II will be published in The Winter Issue.

As a support to this, the project also provides accounting services. A standard chart of accounts, form of accruals and accounting reports was essential. This then enabled the system to print forecast budgets, and variance reports to show financial performance for the second, third and fourth quarters of 1981/82. Equally important was the development of standard welfare program definition, to support functional cost accounting and differential funding proposals. Next, a range of accounting issues were debated and recommended accounting standards were developed. This was greatly assisted by the work of Ian Langdon of Darling Downs Institute of Advanced Education who has researched international welfare accounting standards and established an external study course on the subject. Finally, the standard of accounting was lifted within individual agencies through direct consultation.

A third objective of the project was to give welfare agencies access to computer processing for internal functions such as general ledger accounting and word processing. Seven agencies are involved in a pilot scheme, from January to June, 1983, to explore the applicability of this to welfare. To enhance the pilot, a portable micro-computer has been hired for this period so that agencies can experience in-house processing.

The attempt to achieve each of these three main objectives has involved detailed field consultation. Special seminars have been run to promote debate on the more contentious issues such as accounting standards for welfare. Also, a feedback loop has been built into all computer processing so that each agency can relate the progress of the project to their own situation.

Of course, to support each of these main objectives, the project has had to rely heavily on computer processing at an affordable cost and was fortunate to receiving donations of programming and processing from Darling Downs Institute of Advanced Education, and donations of processing time from the Uniting Church, Victorian Synod Office. Also, to extend the capacity of the portable micro-computer, C.W.A.V. has been able to access time at a computer bureau at a minimal cost via a direct data transfer. Finally, the philanthropic trust, Kazembe Vestates, has generously met many of the ancillary expenses of computerisation.

FUNDING PROPOSALS BASED ON THE FINANCIAL REPORTING SYSTEM

The analysis of agency financial results for 1981/82 raised a range of questions about the incidence of welfare costs and the appropriate government funding to meet that cost. A range of funding proposals were considered, from proposals based on the existing funding structure to proposals that broke completely with tradition. After field consultation it was agreed that funding in 1983/84 should move existing funding arrangements from formulae based on approved staffing positions and number of children in care, to formulae that can form a rational base for contract funding negotations. There seems to be some consensus from the 1976 Norgand Report[2], from policy initiatives by the Department of Community Welfare Services this year, and from calls by agencies for a more equitable funding base, that proposals should move in this direction. However, provision has been made for progressive implementation of these funding proposals, so that all parties can develop understanding of the potential impact of contract funding.

The analysis shows that expenses incurred directly by the physical care role are variable (change in direct proportion to the number of care clients) and should be funded in this way, while expenses incurred indirectly to this role are related more closely to the number of care units in operation and should have a relatively fixed basis of funding. Thus, there are two types of expenses: direct variable expenses and indirect semi-variable expenses.

The analysis also suggest that expenditure can be grouped into three functional areas: care unit costs; welfare programme costs; and agency-wide support costs. Then, if salary and wage costs are excluded from the analysis in the first instance, it can be assumed that care unit costs are direct variable costs, and welfare programme and agency-wide support costs are indirect semi-variable costs.

The analysis creates a funding proposal with a structure, in the first instance, that looks like Figure 1. Costs can be graphed by this structure to give a diagram like Figure 2. C.W.A.V. believes that this funding structure has an application to other areas of welfare.

THE LEVEL OF GOVERNMENT FUNDING NEEDED.

As stated in the introduction, attitudes to welfare spending have hardened in recent years making it more difficult for welfare agencies to fund thier programmes. The subsidy scheme negotiated in 1974/75 was designed to fund 85% of approved expenditure by government subsidies and 15% by public subscription. Neither of these percentages are achievable by many agencies because of the difficult economic environment. In fact, Victoria residential care agencies appear to be 10% to 15% worse off in 1981/82 than they were in 1974/75.

Inflation too, has meant that some costs have increased disproportionately, while a stated percentage such as the 15% now represents a far larger dollar sum that has to be found. C.W.A.V.'s computer analysis shows that overall, direct care costs on a cost per child in residential care per week are now substantial. The table shown in Figure 3 details some of these direct care costs.

C.W.A.V. is now completing a total analysis of costs for the full range of residential care programmes operated by Cat-

Figure 1.

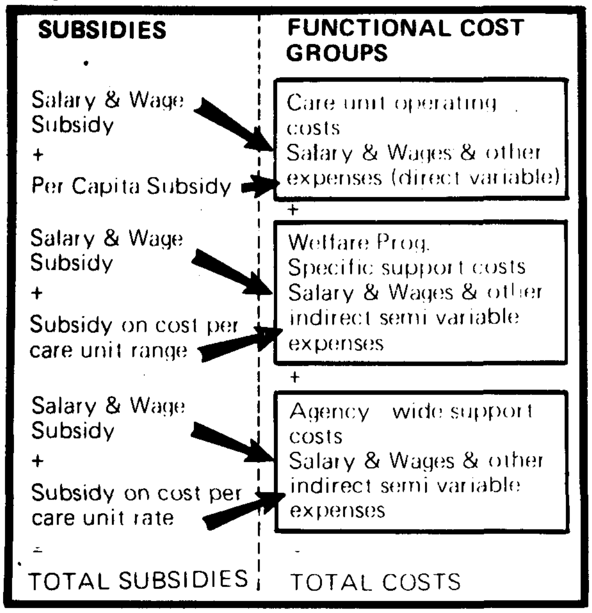


Figure 2.

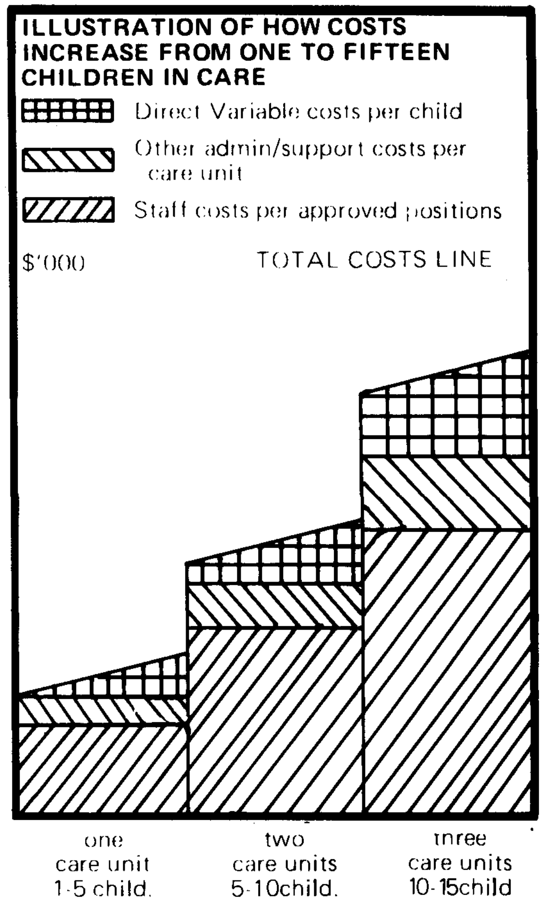


Figure 3.

CHILDREN'S WELFARE ASSOCIATION OF VIC.
FULL PER CAPITA CONSOLIDATION REPORT
(WEEKLY VALUES ONLY)
AVERAGES FOR 1981/82
ALL AGENCIES
ALL RESIDENTIAL CARE PROGRAMMES

Account Details		Agency Budgets	Actual/ Accrued Results
201	Salaries & Wages	113	134
202	Workers' Compensation	1	1
205	Partial Sub. Salaries / Wages		1
206	Non-Subsidised wages and on-costs	2	1
207	Salaries charged by Head Office	3	3
	TOTAL SALARY AND WAGE COST	119	140
214	Heat, Light and Power	3	5
215	Clothing	3	3
216	Household Items	1	1
217	Education Expenses	1	2
221	Provisions	16	19
222	Recreation / Activities	1	1
223	Pocket Money	1	1
224	Motor Vehicle Expenses	1	2
225	Travelling Expenses and Accommodation	1	2
228	General Expenses	2	3
	TOTAL NON-SALARY AND WAGE EXPENSE	30	39
	TOTAL DIRECT EXPENSES	149	179

egory 1 Children's Homes in Victoria and this analysis will form the base for a funding scheme based on the cost differentials of operating care units within these types of programmes. This analysis, and the funding proposal that will be presented to the Department of Community Welfare Services, will be detailed within an article in this magazine in 1983. It is hoped that the initiatives of the Finance and Accounting Project to date and the results of the Project that will soon be to hand, will encourage other welfare fields in Victoria and other State welfare organizations to tackle this difficult area. In the interim, C.W.A.V. is happy to supply further information on its Finance and Accounting Project's successes and failures to any other welfare organization which has similar concerns.

Appendix 1.

In order to clarify the operationalization of the model, the following example presents the model as applied to a fictitious agency.

EXAMPLE OF HOW C.W.A.V. FUNDING PROPOSAL WORKS

When an agency is being established, it may apply to the Department of Community Welfare Services for registra-

tion as a Category I Children's Home, and for funding based on a variety of formulae. The C.W.A.V. Funding Proposal defines these formulae more accurately than in the past and relates them to *standard costs*. This example details these definitions and standard costs presuming Anon Agency operates three Family Group Homes and one Emergency Care Unit.

1. Staffing Subsidies

These relate to approved staffing positions within the functional classification of direct care staff, programme support staff and agency-wide support staff. Direct care staff for Anon Agency include three cottage mothers and three aides working fifteen hours per week, a relief child care worker part-time to cover cottage mother annual leave and sick leave, and three child care staff to operate an emergency care unit under a roster.

Programme support staff for Anon Agency extends only to a 32 hour per week social worker as the staffing model limits support time to 8 hours per care unit per week. However Anon Agency can employ a full-time worker if they meet the total costs of the additional one day per week.

Agency-wide support staff under the staffing model allows similar hours for a Director and Receptionist/Bookkeeper. Again if full time staff or additional staff are employed, such as a typist or maintenance handyman, the agency must meet the additional cost themselves.

The subsidy is based on the cost of the approved staff positions and hours at the rate of say 95% for direct care staff and say 90% of programme and agency-wide support staff.

2. Subsidy per Care Unit

This subsidy is based on the standard non-way indirect costs of operating a care unit. It has two components – an administration cost subsidy and a programme cost subsidy. The administration costs include stationery, audit fees, repairs and maintenance, finance costs, etc. The programme costs include social worker travelling expense, telephone, conference fees, etc. At the moment, the standard cost for each of these two components has not been established, but combined it averages at say $110 per week per care unit. This means for Anon Agency with four units, a costs allowance of $440 per week results for these areas of expense and the subsidy would be say 65% of this cost allowance or $286 per week.

3. Subsidy per Child in Care

This subsidy is based on the standard non-wage direct costs of providing child care. Included in these costs are provisions, clothing, education expense, direct travelling expense and the cost of providing heat and light to the actual care unit. The standard cost allowance for these types of expenses range from $26 per week per child to $59 per week per child in 1981/82 depending on the type of care provided, age of children and staffing model. Anon Agency's cost allowance would be say $28 per week per child for the Family Group Homes and say $26 per week per child for the Emergency Care Unit. With twelve children in care in the Family Group Homes and an average of four in care in the Emergency Care Unit, the cost allowance would be $440 per week and the subsidy on this would be say $330 per week at a rate of 75%.

CONCLUSION

Thus Anon Agency would receive salary subsidies changing with changes in award rates, and non-wage expense subsidies of $286 and $330 per week, increased once a quarter by CPI adjustments.

Note 1: For further details on how the Reporting System uses the computer to consolidate and analyse the date from the field, see "A Financial Reporting System for Welfare" by Graham Withers – The Australian Accountant, Vol. 52, Number 11, December 1982.
Note 2: Report on child care in Victoria, 1976 Victorian Government Printer.