



Сприяння реформі соціальних послуг в Україні Facilitating Reform of Social Services in Ukraine

FACILITATING REFORM OF SOCIAL SERVICES IN UKRAINE (FRSSU)

Contract Number CNTR 03 5289

Assessment of Public Expenditure Management: Developing a Technical Framework for the Financial Reform of Social Services

August 2006

Birks Sinclair & Associates Ltd.
Gatehouse Suite, Palatine House
Belmont Business Park
Durham, DH1 1TW
United Kingdom
Tel: + 44 191 386 4484
Fax: + 44 191 384 8013
e-mail: office@birks-sinclair.com

Харківське представництво
Пл. Свободи 5, Держпром, 3-й під'їзд,
6-й поверх, к. 192, м. Харків, 61022
Тел. 38 (057) 752-30-44
e-mail: bsal@inbox.ru

Київське представництво
Вул. Ярославів Вал, 28, кв. 13,
м. Київ, 01034
Тел./факс: 38 (044) 235-48-84
e-mail: lesya_r@i.com.ua

Хмельницьке представництво
Львівське шосе, 10/1, 2-й поверх,
м. Хмельницький, 29001
Тел/факс. 38 (0382) 72-54-44
e-mail: bsa_khm@svitonline.com

Disclaimer

This document is an output from a project funded by the UK Department for International Development (DFID). The views expressed are not necessarily those of DFID.

Acknowledgements

This Assessment of Public Expenditure Management for the Financial Reform of Social Services was written by Laurie Joshua and Yuriy Dzhygyr as an integral part of the DFID Project *Facilitating Reform of Social Services in Ukraine* [FRSSU].

The DFID FRSSU project team is grateful to Ministers and senior civil servants in central line Ministries and public officials in the Oblasts of Kharkiv and Khmelnytsky who contributed to the preparation of this report and provided access to data. Special thanks are also directed to officials and professionals – particularly for their insights, reflections and critical comments – during strategic planning events on public expenditure management that were convened in October 2005 and December 2005 in Khmelnytsky and Kharkiv.

Responsibility for this paper lies with the Project Director of the DFID FRSSU Project and the authors.

Chapter	Table of Contents	Page
	Abbreviations	4
	Executive Summary	6
Chapter 1	Public Expenditure Management: Getting the Basic Parameters Right for the Reform of Social Services	11
Chapter 2	Achieving Fiscal Discipline: The Budget Process and the Implications for the Delivery and Reform of Social Services	25
Chapter 3	Setting and Promoting Strategic Priorities: A Review of Centralised and Decentralised Decision Making in the Management and Reform of Social Services	43
Chapter 4	Delivering Public Value in Social Services: The Reform of Social Services in the Context of the Government Action Programme	82
Chapter 5	Public Expenditure Management, Strategic Planning and Policy Alignment	106
Chapter 5.1	Strategic Planning, Transition Action Planning and Medium Term Budgetary Planning	108
Chapter 5.2	Costing and Budgeting for Social Services: The Importance of Unit Costs and Developing a Framework Model for Application in the Ukraine	122
Chapter 5.3	Equalisation Transfers and the Administration of Social Services Establishing an Agenda for Change	150
Annex		
Annex 1	European Social Charter Social Planning and Social Services: The Framework Underpinning EU Best Practice	164
References		167

Abbreviations

CBERC	Community Based Early Rehabilitation Centres
CCA	Cost Consequence Analysis
CEA	Cost Effectiveness Analysis
CID	Control and Inspection Department
CoE	Council of Europe
CoM	Cabinet of Ministers
CSPR	Centres for Social and Psychological Rehabilitation
DFID	Department for International Development
EBF	Extra Budgetary Fund
EC	European Commission
ECLSFG	European Charter of Local Self Government
FRSSU	Facilitating Reform of Social Services in Ukraine
ENP	European Neighbourhood Policy
EU	European Union
EUUAP	European Union-Ukraine Action Plan
GAP	Government Action Programme
GDP	Gross Domestic Product
GoU	Government of Ukraine
IMF	International Monetary Fund
MoF	Ministry of Finance
MoE	Ministry of Economy
MoES	Ministry of Education and Science

MFYS	Ministry of Family Youth and Sport
MoH	Ministry of Health
MoLSP	Ministry of Labour and Social Policy
MTBF	Medium Term Budgetary Framework
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
NGO	Non-Government Organisation
NSSI	National Social Services Inventory
OECD	Organisation for Economic Cooperation and Development
PBB	Programme Based Budgeting
PEM	Public Expenditure Management
PPDG	Policy and Practice Development Group
PIT	Personal Income Tax
RAEG	Regional Advisory Expert Groups
SIF	Social Investment Fund
TAP	Transition Action Plan
TBE	Target Business Environment
UAH	Ukraine Hryvnia
USIF	Ukraine Social Investment Fund
VAT	Value Added Tax
WGILSS	Working Group on Implementation of the Law on Social Services

Executive Summary

Overview:

The management, finance and service design of social services is rapidly becoming a strategic priority across most high and middle-income countries – particularly under conditions of demographic change and attendant shifts in household formation and social needs. Although demographic ageing has been a prime driver for the level of priority accorded to social services, equal importance has also been attached to policy considerations concerning disability and promoting and protecting the welfare of children and families at risk of poverty and social exclusion. In the transition countries of Central and Eastern Europe – which now confront similar demographic and social changes to those that are occurred 20 years ago in western European countries – the reform of social services has rapidly risen up the list of social policy priorities alongside pension reform, the reform of cash benefits and social privileges and active labour market measures.

Adjusting systems of governance and strengthening approaches to public management – including public expenditure management – are critical to the reform of social services given that Ukraine is undergoing significant demographic changes which will have significant implications for future financial and service delivery scenarios. The Law on Social Services [LSS, 2004] sets the framework for policy directions that Government of Ukraine [GoU] intends to drive the future delivery structures for social services. However, the organisational arrangements for the administration of social services – which are fragmented across the Ministry of Labour and Social Policy [MoLSP], the Ministry of Health [MoH], the Ministry of Education and Science [MoES], and the Ministry of Family Youth and Sport [MoFYs] - are a significant impediment to the reform process. The administrative fragmentation hinders strategic planning and reduces measures for the effective coordination of policy and the introduction of innovation. It also reduces the understanding of committees in the Verkhovna Rada and the Cabinet of Ministers and the Secretariat of the Cabinet of Ministers who charged with responsibilities for making decisions about financial allocations and for assessing outcomes from public resources devoted to the system of social services in Ukraine.

This report, therefore, provides an assessment on Public Expenditure Management [PEM] within the social services system with a view to setting forth a series of evidence-based recommendations that will be of critical import to the reform of social services in Ukraine. The assessment has been undertaken as part of the Department for International Development [DFID] Project on *Facilitating Reform of Social Services in Ukraine* [FRSSU]. The report draws on evidence assembled from a review of key policy initiatives and legislative frameworks that guide financial planning and administrative practice, and principal discussions with officials in the Ministry of Labour and Social Policy [MoLSP] and officials from the Oblasts of Khmelnytsky and Kharkiv. Supplementary discussions on PEM were also held with the Ministry of Family, Youth

and Sport [MoFYS], the Ministry of Finance [MoF], and numerous policy Think Tanks and Non-Governmental Organisations [NGOs].

Given the structure and content of the Budget Code – which established expenditure norms for a formula-based centralising framework for the allocation of revenues for social services – the financial administrative structures that govern social services is formally the same for all social services that fall under the legislative and administrative responsibilities of: the Ministry of Labour and Social Policy [MoLSP], the Ministry of Health [MoH], the Ministry of Education and Science [MoES], and the Ministry of Family Youth and Sport [MoFYS]. The decision-making structures, including those concerning financial management, towards social services in the MoLSP can - with minor variations - be generalised across all line Ministries with subordinated structures to Oblasts, Cities and Rayons. Indeed, it is in the context of conducting a detailed examination of the efficiency and effectiveness of subordinated structures for public expenditure management towards social services that attention in this report has focused on the MoLSP and on the Oblasts of Khmelnytsky and Kharkiv rather than all Oblasts and all line Ministries. A full overview of past trends in the use of social services and future projections on the national need for social service is documented in a separate, but complementary, report prepared by the DFID FRSSU Project¹. Although there are variations in the allocation of financial allocations between residential and community-based social services in Oblasts across Ukraine these variations are by degree rather than fundamental. For example: the numbers of children, disabled and elderly people in residential institutions is, in large part, determined by the density of specific types of institutions within an Oblast. It is anticipated that the evidence-base and the analysis of that constitute the core basis of this report will contribute to policy dialogue among key stakeholders on the types of structural and systemic reforms that are required, and the content of sustainable policy strategies that are essential for sustaining the future provision of a diversified range of social services in Ukraine.

Purpose of the Report

The purpose of the report is to develop thinking on ways of contributing to more effective policy making for implementation of the Government Action Programme [GAP] on social services and the Law on Social Services and related legislation, and to enable the Government of Ukraine [GoU] to establish and weigh the priorities it needs to set for social services. Specifically, the report focuses on the fact that reforming social services is a normative as well as an economic and organisational activity. Pressures to achieve better expenditure control and/or greater productivity need to be balanced against imperatives to maintain universal access to necessary social services, and to improve the equity with which services are distributed to those in need of care and protection.

¹ See: DFID FRSSU Project Report: *Demography, Social Statistics, and Financial Trends: Analysing and Scoping the Future Demand and Need for Social Services* (2006a) for detailed analysis of demographic trends to 2050, social change, past patterns of use of social services, future demand for social services, and financial projections on future costs of social services to 2015. Also, for an overview of social services responsibilities of the MoLSP, MoFYS, MoH, MoES, and other line ministries see World Bank Report entitled: *An Introduction to the System of Social Care Services in Ukraine*, March 3 2006, A Report Prepared: for the World Bank Mission in Ukraine, World Bank, Kyiv.

Managing these pressures is particularly challenging when existing social service provision is dominated by residential institutions, when demographic processes are undergoing fundamental shifts, and when the policy objective is to reform residential services and diversify services towards community-based provision that yield better outcomes for individuals.

Reform measures must in the end be judged not only by short-term savings to public budgets but also by: their ability to promote social and economic well-being, generate gains that reduce poverty and social exclusion in line with the GAP, and adapt to changes in need brought about demographic and social changes.

Methodology

Data collection work for the report was based on a three-staged process of policy dialogue in the Ministry of Labour and Social Policy [MoLSP] that commenced in June 2005, an intensive assessment in June and July 2005 in Khmelnytsky, and a similar assessment in Kharkiv in March, April and May in 2006. Alongside these data mining processes a workshop on the *Modernisation and Reform of Social Services* was convened for a cross-section of staff from the MoLSP in June 2005, and strategic planning events were held in Kharkiv Oblast in November 2005 and in Khmelnytsky Oblast in December 2005. Face-to-face discussions with Ministers and senior officials from the Ministry of Finance [MoF], Ministry of Family Youth and Sport [MoFYS] and the MoLSP - on reforms to the budget formula for social services, an economic assessment of unit costs in across different types of social services, and a request [from the MoF] for a national inventory of residential and community-based social service provision – policy reviews were carried on the strategic policy interface between *Demography, Social Statistics and Financial Trends; Social Services Policy and Legislative Frameworks; Legislation on Non-Government Organisations [NGOs], Taxation, and the Delivery of Social Services; and Auditing for Improved Performance in Social Services: Quality and Outcomes*. The evidence base and policy analysis assembled from these outputs are appropriately cross-referenced in this report, although readers are encouraged to consult these documents in full in order to gain an in-depth appreciation of challenges and opportunities in the policy environment.

The complementary tasks referred to above were undertaken with a view to providing a rounded set of recommendations that will assist with: (i) the evolution of government legislation and thinking on social services policy, (ii) proposals for territorial reform and systems of local self government, (iii) developments aimed at strengthening and deepening the quality of state administration, (iv) strengthening official statistical systems, (v) amendments to annual budget laws that concern social services, and (vi) ensuring that developments pertaining to the European Union-Ukraine Action Plan [EUAAP] and its future implementation capture the need for on-going inputs to reform and reframe social services .

The evidence assembled for this particular report was prepared in phases:

- (i) A preliminary assessment was completed in September 2005 and circulated among key stakeholders at central and local government levels as a discussion document.
- (ii) As more detailed information was garnered and cross-referenced a revised document was prepared and appears as this report - which was completed in August 2006.

The methodology has focused on providing a detailed evidence-based assessment of social services in Ukraine, and delineating the policy challenges faced by politicians and civil servants across central and local tiers of government. The approach has been to present a concise yet substantive perspective on particular areas of policy concern that are complementary to the other strategic outputs of the DFID FRSSU project. It should be noted that although this report provides strategic recommendations – these are for deliberation as part of the DFID FRSSU’s on-going policy dialogue with the GoU, and with other stakeholders such as the World Bank, the European Commission [EC] and the Council of Europe [CoE].

The Organisation of the Report

The report offers an overview of the complex issues currently confronting PEM in social services in the Ukraine. In pursuit of assessing this complexity the report incorporates a variety of different analytical perspectives from different disciplines including social policy, economics, organisational behaviour and strategic planning and management.

The present preliminary version of the report is organised into **two parts**: The first part concentrates on an assessment of the financial and administrative policy environment; while the second part concentrates on assembling the evidence-base in support of specific recommendations for improving strategic planning, developing a transition action plan, the framework for assessing unit costs in social services, and amendments to the budget formula that remove biases that reinforce the use of residential social services and constrain the expansion of community-based alternatives. The two parts of the report are divided into eight chapters:

Assessment:

- **Chapter 1** - Public Expenditure Management: Getting the Basic Parameters Right for the Reform of Social Services - which concentrates on the baseline framework for assessing Public Expenditure Management [PEM], the content and process elements of PEM, and their application to the budget process and the delivery of social services.
- **Chapter 2** - Achieving Fiscal Discipline: The Budget Process and the Implications for the Delivery and Reform of Social Services – reviews fiscal policy in Ukraine, the strategic importance of the Budget Code and the achievement of fiscal discipline, the budget structure of Ukraine, the budget

formula and its constituent parts, and an appraisal of the achievement of fiscal discipline.

- **Chapter 3** - Setting and Promoting Strategic Priorities: A Review of Centralised and Decentralised Decision Making in the Management and Reform of Social Services – draws attention to the content and role of the Government of Ukraine’s Action Plan, the process of strategic planning in government, an assessment of strategic planning and financial management of social services in the MoLSP, an assessment of fiscal decentralisation, administrative and budgetary systems for social services in the Oblasts of Khmelnytsky and Khrakiv, and an assessment of setting and promoting strategic priorities.
- **Chapter 4**- Delivering Public Value in Social Services: The Reform of Social Services in the Context of the Government Action Programme – focuses on the intervening role of ‘public value’ in the relationship between the state and the citizen, approaches to the management of public services, challenges for public value in the context of managing and reforming social services, the commissioning and provision of social services as a mechanism for establishing a system of “money follows the client” [which has developed high resonance in government policy rhetoric], and an assessment of public value and PEM.

Recommendations:

- **Chapter 5** - Public Expenditure Management, Strategic Planning and Policy Alignment - provides an overview of the evidence-base from the previous chapters, and sets the framework for the formulation of policy recommendations that focus on:
- **Chapter 5.1** - Strategic Planning, Transition Action Planning and Medium Term Budgetary Planning
- **Chapter 5.2** - Costing and Budgeting for Social Services: The Importance of Unit Costs and Developing a Model for Application in the Ukraine
- **Chapter 5.3** - Equalisation Transfers and the Administration of Social Services: Establishing an Agenda for Change

Next Steps

This report and the evidence-base it has assembled on public expenditure management will need to be discussed with a wide range of stakeholders involved with the planning and delivery of social services, and with the financing of public services more generally.

It is anticipated that this report – alongside the other technical outputs from the DFID FRSSU Project - will be deployed as part of an evidence-based ‘armoury’ in the formulation of a Transition Action Plan [TAP] that will be developed and advanced by

the inter-departmental Working Group for the Implementation of the Law on Social Services [WGILSS] - which is facilitated by the Ministry of Labour and Social Policy [MOLSP], and draws representation from the MoH, MoF, MoES, MoFYS, and numerous national level Non-Government Organisations.

Chapter 1: Public Expenditure Management

Getting the Basic Parameters Right for the Reform of Social Services

Introduction

All countries collect taxes and spend revenues. They must therefore organise their systems for Public Expenditure Management [PEM] as part of a wider system for strategic planning that should lead to well-defined targeted, government agenda for the delivery and on-going reform of public services. In countries that cover large landmasses the poor organisation of intergovernmental relations impedes the development of economic and social policy¹. A strategic approach to reform is required because it takes time to achieve policy aims in a context where intergovernmental and inter-budgetary relations are still evolving and in a context where a profound demographic transition is underway. Indeed, without a strategic approach, government plans can be taken off course by day-to-day events, and individual measures may not add up to a coherent programme that contributes effectively to the achievement of policy outcomes.

The task of allocating and managing public money for social services – and other public services - is a task shared between politicians and civil servants. These two groups - with politicians deciding and civil servants advising – effectively determine the amounts to be spent, the balance that needs to be struck between revenues and expenditures, how funds are allocated among public activities and agencies, and how these resources will be managed and accounted for.

The strategic processes documented in this report are therefore based on the identification and the selection of a baseline framework for assessing policy making and the administration of social services within a blend of *centralised* and *decentralised* structures of multi-level government decision-making² that emerged following the adoption of the Budget Code of 2001³. The Code is recognised⁴ as having done much to

¹ See Thießen, U. (2004); Tommasi, M. et.al. (2001); Litwack, J.M. (2001)

² The blend of multi-level government decision-making between centralised and decentralised functions is closely associated with the balance that needs to be struck between two public finance decisions: tax capacity and pro-poor expenditure. The balance, in recent years, has focused on central government *decentralising* functions and resources to lower levels. Schneider (2003) groups the conceptual and empirical distinctions on decentralisation into three measures: fiscal [which refers to how much central government cede fiscal responsibility to non-central government institutions], administrative [which refers to how much autonomy non-central government entities have relative to central control], and political [which refers to the degree to which non-central government entities satisfy key political functions such as representation].

³ See Chapter 2 for fuller assessment of the Budget Code and its policy and operational implications

⁴ World Bank (2004);

clarify the division of autonomy, competence, and responsibility between different tiers of government of which the delivery of social services is an integral part.

In the Ukrainian context the reform of social services⁵ – which are administered through processes of multilevel government decision making - has been spurred and assisted by three national level features in the policy environment:

- The **Law on Social Services**⁶, which provides for the development of a modernised policy environment that supports a licensed, price, and contract based arrangement for the commissioning and provision of community-based social services in accordance with specified service standards, defines ‘social services’ (Article 1) as:

A set of legal, economic, psychological, educational, medical rehabilitation and other measures, targeted at certain social groups or individuals experiencing difficult life circumstances and requiring extraneous help...for the purpose of improving or restoring their vital activity, social adjustment and return to full-fledged life

International support from the World Bank through the US\$50 million World Bank loan for the **Ukraine Social Investment Fund [USIF]**⁷ - which incorporates a [US\$10 million] social services sub-component that focuses on central level strategic reforms [US\$1.68 million] and local level micro-projects [US\$7.5 million] in a number of pilot Oblasts – primarily, but not exclusively, in Kharkiv

⁵ For the purposes of this report, and in keeping with parameters of the Law on Social Services, the expression ‘social services’ refers to those “in-kind services that seek to address and manage socio-economic risks, meet individual needs, and provide a wide range of care and support to reduce poverty and social exclusion”. Such services incorporate the following population groups and institutional mechanisms: Elderly people, through residential care homes, home care, day centres; People with physical disabilities or learning disabilities generated by work related diseases and injuries, chronic illnesses; People with mental health problems, ranging from support to those with mild mental illness, up to exercising legal powers for compulsory admission to psychiatric hospitals of potentially dangerous people; People with drug and alcohol abuse problems, and ex-offenders who need help with rehabilitation and resettlement; Families, particularly where children have special needs such as disability; Children’s services, including monitoring and offering protection to children at risk; Children, through fostering, accommodation in children’s homes and adoption; Young offenders; and Homeless adults and children

⁶ The Law on Social Services, Verkhova Rada (BVR) 2003, N45, p.358 updated under Law N 1891-IV (1891-15) of 24 June 2004. The origins, and its rationale, of the Law on Social Services can be traced to Presidential Decree No 1166/97 of 18 October 1997 which focused on economic and social policy for period 1997-2000, and reinforced by Presidential Decree 637 of 15 August 2001 which focused on an attempt to generate a distinctive Poverty Reduction Strategy [PRS]. It should be noted that the PRS – although reflected in the World Bank Country Assistance Strategy [CAS] for the period 2000-2003 – never manifested into a coherent policy and governance framework for reform.

⁷ World Bank Project Appraisal Document on the Proposed Loan to Ukraine for the Social Investment Fund [USIF] Project, October 2001. The US\$50 million loan is accompanied by co-funding from the Government of Ukraine to the tune of US\$20 million – which is primarily aimed at covering charges for Value Added Tax [VAT] and other fees.

and Khmelnytsky Oblasts. There are also a number of European Union [TACIS] funded social services reform programmes aimed at strengthening specific areas of policy at local levels – including the regional level, a pilot programme on alternatives to residential care for children in Kyiv Oblast, and a community-partnership programme between local government and NGOs on service delivery across a number of pilot Oblasts.

- The **DFID Project on Facilitating Reform of Social Services in Ukraine [FRSSU]** which focuses⁸ on the development of:

Policy objectives and priorities, and the development of strategies for social services reform, which support the Government of Ukraine's (GoU) overall aims of poverty reduction and decentralisation

And, the identification of:

Financial systems and processes that need to be in place to support the delivery of community-based social services...and new approaches to financial planning, management and auditing

The policy goals associated with the elaboration of cost-effective and targeted social services provision are set against the backdrop of developing and expanding community-based social services [e.g. home care services for the elderly and disabled, and foster care for children under state guardianship] as an alternative to the dominant use of residential services for the care and protection of various population groups – including elderly people, children and families, people with disabilities, people with chronic illnesses, and homeless people – and the reform of residential institutions⁹. These internal drivers for the reform of social services in the Ukraine are, in turn, underpinned by three European level policy frameworks – the European Charter of Local Self Government¹⁰, and the

⁸ The main analytical focus of tasks undertaken by the DFID FRSSU Project on central level policy development, in addition to this work on PEM, incorporate the following: (1) *Demography, Social Statistics and Financial Trends: Analysing and Scoping the Future Demand and Need for Social Services* (2006a); (2) *The Interface Between Legislation on Non-Government Organisations, Taxation and the Delivery of Social Services* (2006b); (3) *Europeanisation and European Choice: Social Services Policy and Legislative Frameworks* (2006c); and (4) *Auditing for Improved Performance in Social Services Quality and Outcomes* (2006d).

⁹ The provision of social services [residential and community-based] embraces the legislative and administrative remits of the Ministry of Labour and Social Policy [MoLSP], the Ministry of Health (MoH), the Ministry of Education and Science [MoES], the Ministry of Family, Youth and Sport (MoFYS), the financial remit of the Ministry of Finance [MoF] and the delegated operational and financial responsibilities of Oblasts, cities and rayons. See: DFID Inception Report on *Implementation Phase of Support to Ukrainian Social Investment Report*, Vol. 2 [2005a] for a more detailed outline of the administrative and financial division of responsibilities for the provision of social services.

¹⁰ Ukraine signed the **European Charter of Local Self Government [ECLSF]** in 1997. The provisions of the ECLSF include, among others, the following: all local authorities should manage a substantial proportion of public affairs in the interest of the local population; the powers of local government must be

European Social Charter¹¹ and the European Union-Ukraine Action Plan¹² [EUUAP] – all of which reinforce the Government’s Action Programme [GAP] “*Towards the People*”¹³. The GAP states that:

The principal improvement task for the social protection system of the population is to solve the problems of poverty (and) to increase the quality of social services in order to approach the European level and to enlarge the circle of those who render such services. Priority will be given to socially un-protected elderly people, not sufficiently provided families, invalids and families with children.

The extent to which the distribution of centralised and decentralised functions shapes intergovernmental administration and inter-budgetary relations cannot be overstated. Indeed, in the context of elaborating the Law on Social Services [LSS] and related legislative frameworks the management of social services must not only work within the bounds and norms of the distribution of administrative and fiscal responsibilities across different tiers of government, but also enhance and seek to reform these bounds and norms in the context of supporting the government’s European Agenda.

Indeed, externally generated policy interventions that operate or reinforce practices that narrowly focus on the generation of numerous projects in a manner that is disengaged

recognised in legislation; rights apply first and foremost to local authorities, but may also apply to regional authorities where these exist; local authorities must be able to act freely on all matters that they are best placed to deal with, they must also be consulted on any matters directly affecting them; local authorities must have executive bodies and be able to recruit the necessary staff; and financial resources must be made available to local authorities to enable them to carry out their tasks.

¹¹ Ukraine is a full member of the Council of Europe having joined on 9 November 1995, and signed the **European Social Charter** on 2 May 1996. However, Ukraine has not yet ratified the Charter and it has therefore not entered into force in domestic law. The revised European Social Charter (1996) stipulates the right of citizens to use social services. Countries that sign the Charter undertake to: a) promote or provide services which, by using methods of social work, would contribute to the welfare and development of both individuals and groups in the community, and their adjustment to the social environment; and b) encourage the participation of individuals and Non-Government Organisations (NGOs) or other organisations in the establishment and maintenance of social services [See: **Annex 1**].

¹² European Commission, *EU/Ukraine Action Plan*, DG Enlargement, UE-UA 1051/05, Brussels. The EUUAP is an integral part to the EU’s European Neighbourhood Policy [ENP] which focuses on political dialogue and reform, trade and measures for enlargement with the EU’s internal market, justice and home affairs, energy, transport, information, environment, research and innovation, and social policy and people-to-people contacts. While accession is not currently on the agenda for EU-Ukraine relations the specific provisions of the ENP do not contradict the wider provisions laid down under the Treaty of the European Union which provides that any European State which respects the principles of democracy, human rights and the rule of law may apply to become a member of the European Union.

¹³ After assuming office the President is required by the constitution to give an address to the Verkhovna Rada which covers the aims and activities for the period of the President’s term. The Government then produces its own programme, setting out how it intends to implement the President’s strategy. The strategy in effect becomes the Government Action Programme [GAP]. The current government programme is based on the agenda set forth in *Towards the People* [See: Chapter 3 for an elaboration of the institutional functions of the GAP]

from laws, norms, the institutional framework for local, regional and central government, and the budget process - thus failing to address relative strengths and weaknesses in existing government systems and procedures - will tend to undermine their potential impact and contribution to policy dialogue by fragmenting the efforts of policy-making institutions and service delivery structures. It is precisely to minimise this risk that the DFID FRRSU project has a significant policy development and policy analysis component. In order to ensure that the policy dialogue aspects remains to the fore evidence-based objectivity is critical and to facilitate the formation of an evidence-base the policy baseline measures used in this assessment cover three areas: *achieving fiscal discipline*, *setting and promoting strategic priorities*, and *delivering public value*. Taken together, these baseline measures constitute the basic framework for assessing Public Expenditure Management [PEM] systems. However, assessments against the policy baseline measures cannot be scored because the characteristics of policy-making systems are not amenable to rigid judgments. Instead the baseline measures have been used to provide a general assessment of the policy-making and co-ordination machinery, and designed to assist with the identification of areas that will enable eventual improvements in the efficiency and effectiveness of social services provision. The baseline framework and its objectives are depicted in Table 1.1 below:

Table 1.1: Baseline Framework for Assessing Public Expenditure Management

Policy Baseline Measures	Explanation
Achieving fiscal discipline	Keeping spending within limits created by the ability to raise revenue and keeping debt within levels that are not prohibitively expensive to service
Setting and promoting strategic priorities	Allocating and spending resources in those areas that make the greatest contribution to the government's objectives
Delivering public value	The performance of policies and public institutions, and making decisions about allocating resources and selecting appropriate systems of delivery, and the efficient and effective use of resources in the implementation of strategic priorities.

Source: Authors

Public Expenditure Management and its Association with Reform

The three policy baseline measures in the assessment of PEM are interdependent, and should ideally be mutually reinforcing but this is not automatically the case. In many ways, achieving fiscal discipline comes first. Thus in a decentralised policy environment that focuses on reforming social services, meeting competing and changing demands, and managing the path-dependency inherent in existing structures of social service delivery, the primary goal of the Government of Ukraine [GoU] needs to focus on reconciling

expenditure and revenue levels. It is sometimes the case that the methods chosen to pursue fiscal discipline will undermine the promotion of strategic priorities and the delivery of public value. Thus in the context of reforming social services – in alignment with the Law on Social Services and related legislation¹⁴ - it will be important to ensure that achieving fiscal discipline does not undermine strategic prioritisation and the delivery of public value.

It is clear that the term “reform” – which has become increasingly popular in transition countries that have embarked on democratic and economic changes - has particular resonance for this assessment. However, in spite of the wide use of this concept there is no consistent and universally accepted definition of what constitutes “reform” in the context of modernising social services. Indeed, policy-makers and analysts attribute different meanings and connotations to this concept. In some instances national policy makers and politicians have sought to magnify small changes in the organisation of the social services system by labelling them “reforms”. It is thus useful to distinguish structural reforms from incremental changes.

For the purposes of this *Assessment of Public Expenditure Management for the Reform of Social Services* ‘reform’ is characterised as:

Activities concerned with changing policies and institutions through which social services are implemented. The Redefinition of policy objectives alone is not enough. To deal with social services constraints, there is a need for institutional reform with changes to existing institutions, organisational structures and management systems. Thus, the reform of social services is concerned with defining priorities, refining policies and reforming the rules and institutions through which these policies are implemented.

Within the confines of this characterisation, normal evolutionary and incremental system changes in social services need to be differentiated from fundamental structural reforms. The distinction between “evolutionary” and “structural” change is somewhat arbitrary and subjective, and reflects the nature and type of judgements that are required in social services – for example, it is a question of judgement as to whether establishing or expanding community-based social services is an ‘evolutionary’ or ‘structural’ change. However, if community-based social services are established and expanded as part of policy that aims to achieve a **Balance of Service Provision**¹⁵ across different types of

¹⁴ See DFID FRSSU Project report: *Europeanisation and European Choice: Social Services Policy and Legislative Frameworks* (2006c) for a more detailed analysis of the interface between the LSS and other legislation on social services.

¹⁵ The term *Balance of Service Provision* refers to the *balance* that needs to be struck between the mixture and type of social services [e.g. Home Care, Residential Care, Hospital Care for elderly people; or Home Supervision, Foster Care/Adoption or Residential Care for children and young people] that need to be provided. The *balance* is based on the identification of different ways of achieving the same level of benefit to clients at the least cost to public finances. The *Balance of Service Provision* is essentially a model that focuses on improving **cost effectiveness**, **diversifying service provision** and **improving client outcomes**.

service provision it is more appropriate to talk in terms of structural change because the task involves making decisions about how best to meet the needs of a particular population at least cost to public finance.

In assessing the balance that needs to be struck between individual needs and paying for the costs of meeting these needs it is imperative that reform of social services must aim to achieve a series of policy objectives. Yet there is plenty of evidence from transition economies that reform programmes – particularly in social policy areas – have been set in motion without a clear set of objectives. Thus the process of reform has a time dimension that is linked to the achievement of particular national policy objectives. In essence the reform of social services consists of longer-term changes that extend beyond experimental and geographically bound initiatives.

The approaches to reform and the number and diversity of measures included under the label of “reform” vary substantially, and it is rarely the case that reforms are debated and decided on as a single homogenous entity. Indeed, it is much more likely that reforms are bundled as a package of different measures, each of which needs to be assessed and evaluated separately. Reform is therefore primarily a mixture of *content* and *processes* that involve sustained and profound institutional and structural change led by government; and entails seeking the attainment of explicit policy objectives. Box 1.1 below summarises the key elements [content and process] of a PEM system that have been drawn upon, and used, in this report to assess the scope for specific reforms in social services.

For a more detailed assessment and application of the *Balance of Service Provision* model See **Chapter 5.2**; and DFID FRSSU Report [2005b] *Reforming and Modernising Social Services: Lessons from EU Experience*, A Paper Prepared for the Consultative Seminar Strategic Measures to Support the Government of Ukraine in the Reform and Modernisation of Social Services.

Box 1.1: Content and Process Elements of PEM

Key Elements of PEM to be considered for the Reform of Social Services

Content:

- Diversity of measures to be adopted
- Impact of country-specific characteristics of social services systems

Process:

- Structural rather than incremental or evolutionary change
- Change in policy objectives followed by institutional change, rather than the redefinition of objectives alone
- Purposeful rather than haphazard change
- Sustained and long-term rather than one-off changes
- Political top-down and bottom-up processes led by national, regional and local governments

The *Content* Rationale for PEM in Social Services:

In the context of addressing the content issues outlined above, the review of PEM has been based on a robust and consultative diagnostic process. The rationale for this approach has been based on the need to:

- *Distinguish symptoms from underlying causes:* It is always tempting to tackle symptoms as if they are more often amenable to discrete technical solutions. For example, poor expenditure control can be confronted through new financial management systems. However, the introduction of financial management systems will make little impact if weak control is really a symptom of a lack of political will to enforce the Budget Code, or a symptom of anomalies within the Budget Code. Policies and initiatives that only address symptoms are not likely to bring sustainable improvements and may sometimes exacerbate pre-existing weaknesses.
- *Avoid jumping too quickly to solutions:* There is often a temptation to see the latest buzzword or fad as providing the answer to all problems. Performance budgeting, integrated financial information management systems, programme

budgeting, and medium term expenditure planning frameworks, “money follows the client” are examples. These approaches can work, but only where they focus on the real problems and if they are aligned to administrative capacities and institutional constraints. In many cases, more simplified versions of these approaches stand a much better chance of success.

- *Building a shared understanding of key problems:* The process of assessment provides an opportunity to build a shared understanding of the problems. There are always opportunities for key stakeholders to frustrate the intent of reform and this is particularly likely if they do not understand the need for, or are not actively involved in the design of, reforms. Gaining support for reforms involves building the confidence of both politicians and civil servants that the changes will solve the real problems they face. Therefore, not only is it important for PEM reforms to be based on robust assessment, the process of assessment must itself build some consensus on what the problems are.

Given that this report focuses on a preliminary assessment of PEM in social services the policy baseline measures [see Table 1.1 above] have been selected because they help focus on the foundations for ensuring that policies, decision-making systems and the institutional structures that govern intergovernmental fiscal relations have meaningful effects on outcomes. Indeed, these baseline measures should help identify whether:

- Policies are deficient;
- Policies are sustainable in budget terms; and
- Government decisions are implemented.

The baseline measures are intended to be an assessment tool that enables weaknesses to be identified without being too prescriptive with solutions. Thus the baseline measures have been used to collect information on some of the key symptoms of weak expenditure management practices that affect the current and future performance of social services, and that constrain opportunities for the reform of social services in a manner that is aligned with objectives specified in both the GAP and the Law on Social Services. Given that policy processes are dynamic any attempt to freeze a situation in time would be artificial. The assessment is, therefore, designed as a flexible tool to help politicians and public sector managers [at central, regional and local levels of government] consider the technical and organisational issues that need to be acted upon in the reform of PEM systems that govern the delivery of social services.

The *Process* Dimensions of Public Expenditure Management

The dynamic process of policy making means that there is no ‘one-size fits all’ system of PEM, and the characteristics of the processes depend on the economic, social and administrative realities that are integral to prevailing systems of governance. In recognition of the fact that improved policy making and co-ordination should contribute to better governance six *process* dimensions of PEM are universally important in

generating good budgetary outcomes with respect to the three objectives in Table 1.1 above:

These processes are:

- Constructive political engagement;
- Policy clarity, consistency and affordability;
- Predictability;
- Transparency;
- Comprehensive and integration; and
- Accountability.

The extent to which these particular characteristics are present can be used to benchmark the quality of decision-making systems, and whether there are systemic impediments to the reform of social services. Thus the characteristics provide a useful framework for judging or assessing PEM systems.

What is political engagement?

A PEM process that promotes political engagement provides a framework in which political intentions are reflected in stated policies towards social services and in the budget. This builds political commitment to follow the budget, reinforced by an effective process of scrutiny by the Verkhovna Rada, the Cabinet of Ministers [COM], and Oblast level officials.

Why is political engagement important?

The allocation and management of public funds for social services is, first and foremost, a political matter. Without this engagement, politicians can escape responsibility for expenditure decisions reflected in the budget. A good PEM system for social services will create pressures for the COM, Government Departments, and Oblast level officials to work as teams to identify an expenditure strategy, and expenditure trade-offs within a strategy, rather than attempting to squeeze resources for their pet initiatives or projects on an *ad hoc* basis. Political engagement in the budget process for social services should help temper unrealistic demands and add credibility to budget enforcement.

What is policy clarity?

This characteristic refers to the quality of policy analysis and formulation. Effective expenditure management for social services is not feasible without well-defined expenditure policies, whose unit costs are properly identified in the budget appropriations and are consistent with available resources.

Why is policy clarity important?

Failure to link policy, planning and budgeting for social services may be the single most important factor contributing to poor budgeting outcomes¹⁶. Policy decisions in transition economies are often made without considering expenditure implications and cuts in funding are enforced without changing the policies that drive expenditure. This leads to a mismatch between what is promised through government policies and what is affordable. Under these circumstances the budget becomes more about scrambling to keep things afloat than about allocating resources to achieve strategic objectives. A medium term approach that encompasses all expenditure in social services, within an overall expenditure limit, will facilitate the management of policies and budget realities.

Currently the policy-defined social service norms, which provide the basis for Ukraine's budget requests, are often unaffordable by a wide margin. However, there has been no effective process for revising these norms. Given that priority services are not clearly defined by policy, they are not adequately protected from within-year budget changes.

What is predictability?

Predictability refers to the extent to which the budget for social services provides a dependable guide to public sector managers as to where and when resources will be made available. Poor predictability often reflects over-optimistic economic and revenue forecasting during budget preparation. However, there are other sources of revenue instability such as external shocks due to changes in prices or interest rates. However, the use of contingency reserves or borrowing instruments can prevent the need for in-year expenditure cuts due to revenue shortfalls.

Why is predictability important?

If the flow of funds for existing or new social services is erratic, public sector managers cannot plan their activities or commence a process of planning. This makes it difficult to deliver services efficiently. In particular, personnel costs in social services are generally a high percentage of total recurrent costs and cannot be adjusted quickly. As a consequence, the impact of unpredictable revenue flows for existing and new social services on non-personnel costs, and thus on service delivery, is magnified.

What is transparency?

A transparent budget system provides a readily understandable guide as to how resources are to be used, and what results social services are expected to achieve. The emphasis on results are designed to ensure that short-term political pressures do not over-ride the need for a sound medium-term financial strategy for social services; and to ensure that the public is better informed about the fiscal outlook, especially during election campaigns.

¹⁶ World Bank (1998a)

Why is transparency important?

Transparency promotes certainty and confidence over budget plans and reduces the opportunity for corruption. Clear communication of the government's strategy for social services will also help the public sector managers [across central and local tiers of government] to ensure that their budget plans are consistent with the strategy. Public sector officials can only be held accountable if policy expectations- for example, reducing the dominant use of institutional care and diversifying provision through community-based alternatives – are clearly specified *ex ante*.

What are comprehensiveness and integration?

The budget for social services should capture all activities of government in this sector. However, defining the scope and scale of the government social services sector is not straightforward – particularly when legislative and administrative roles are fragmented across different line Ministries Ministry of Labour and Social Policy [MoLSP], Ministry of Education and Science [MoES], Ministry of Health [MoH] and Ministry of Family, Youth and Sport [MoFYS], and where budget and financial responsibilities are splintered between the Ministry of Finance [MoF] and Oblasts, cities and rayons.

Getting the right mix of expenditure – between residential and community-based social services – requires that expenditure decisions be integrated: current and capital expenditure decisions in particular need to be linked and assessed together.

Why are comprehensiveness and integration important?

Comprehensiveness and integration are needed to ensure that all policy proposals on social services with expenditure implications compete for resources in the context of overall government priorities. With fragmentation [legislative] and splintering [finance] across different structures of government major decisions about trade-offs in public expenditure on social services - which need to be undertaken simultaneously rather than sequentially - cannot be taken. Therefore, comprehensive coverage of social services expenditures across all key line Ministries and between different tiers of government needs to be matched by a systemic analysis that ensures key decisions are made in early stages of budget preparation. Comprehensive coverage implies that all Government activities in the provision of social services are captured. This task may be comparatively easy to do while residential services are the dominant form of service provision, and needs to be undertaken with urgency, and prior to the elaboration of operational procedures and financial regulations for the delivery of community-based social services. Trying to undertake the task of assessing comprehensive coverage after community-based services have become fully established will result in major obstacles to improving the PEM process.

What is accountability?

Accountability requires that decision-makers involved in the administration of social services across different tiers of government be held responsible for the exercise of authority vested in them. There are broadly three types of accountability – external, internal and managerial – with more discretion provided to public sector managers as systems move from external financial accountability to internal financial accountability to managerial accountability. These three different types of accountability systems can also be distinguished by the extent to which they focus on financial accountability [i.e. for the use of funds] or performance accountability [for the delivery of services or achievement of results]. Table 1.2 below provides an illustration of the types of accountability.

Table 1.2: Dimensions of Accountability

Type of Accountability	Exercised by	What is Controlled	Mode of Accountability
External	<i>Central Government:</i> Provide approval for each discrete transaction or group of expenditures	<i>Inputs-</i> specific items of expenditure	<i>Compliance</i> with itemised Budget and government-wide rules. Pre-audit of transactions: control is imposed before any expenditure of funds.
Internal	<i>Spending Departments:</i> Those of who spend the funds have first-instance responsibility for ensuring the legality and propriety of their actions	<i>Inputs:</i> Classes of Expenditure	<i>Department systems</i> comply with Government wide standards. Post audit of transactions. Managers do not have to obtain outside approval before they act.
Managerial	<i>Spending managers:</i> given discretion to spend appropriated resources in exchange for being held accountable for performance.	<i>Outputs and total running costs:</i> focus on what managers are producing rather than what they are buying.	<i>Accountability</i> for performance. Ex ante specification of performance targets. Ex post audit of results.

Source: World Bank Institute (1998)

Why is accountability important?

Without accountability politicians and civil servants have no incentive to take the PEM process for the administration and reform of social services seriously. Accountability is therefore important to ensure that:

- Actual expenditures are consistent with plans: that spending is supported by appropriate documentation and complies with financial and accounting regulations [i.e.; financial accountability]; and
- Spending contributes to the achievement of the government’s objectives [i.e.; managerial accountability].

Assessing the extent to which a PEM system is embodied with accountability requires a focus on **five** key questions:

- Are there clear lines of accountability? Are the roles and responsibilities of key players clearly defined?
- Is information on execution of the budget available on a timely, reliable and accurate basis?
- Is the PEM system reinforcing discipline through the enforcement of control and compliance regulations?
- Are the inputs and/or outcomes of expenditure reported upon, and considered in assessing future budget requests?
- Is independent audit and verification of performance and financial reporting robust enough to provide effective feedback on policy performance?

Addressing the Problem Areas and the Organisation of this Assessment Report:

Any assessment of current problems and future opportunities has to take account of system norms that have persistent effects. Designing a sequence for the reform of social services therefore requires balancing the demands for reform with the supply and identification of appropriate steps. Taking the above questions into account, it is only sensible that the weakest areas are tackled first. The PEM system for social services will only be as strong as the weakest link. Thus significant improvements in budgetary outcomes from new investments in social services are unlikely while major gaps remain in the system. As a consequence, it is necessary to take a stepped approach to PEM reform in social services which requires a focus that:

- Draws information on demographic and social trends¹⁷
- Addresses the problem areas identified through a process of assessment, and tackling the weakest areas and getting the basics right first; and
- Recognises the constraints and barriers to PEM reform within the political and institutional environment.

The assessment has therefore sought to take account of the internal and external drivers for the reform of social services, assess the PEM system for social services, and provide a number of short, medium and longer-term steps for advancing the Government's Action Programme [GAP] as defined in *Towards the People*.

¹⁷ See: DFID FRSSU Report: *Demography, Social Statistics and Financial Trends: Analysing and Scoping the Future Demand and Need for Social Services* (2006a) for a detailed review of the interface between demography and social services reform – including demographic and financial projections associated with social services

Chapter 2: Achieving Fiscal Discipline

The Budget Process and the Implications for the Delivery and Reform of Social Services

Introduction

Fiscal policy in the Ukraine has in recent years has been particularly successful in establishing macroeconomic stability. This is characterised by strong revenue developments backed by impressive macroeconomic dynamics, improved budgeting and increasing budget realism. Indeed, after a decade of severe economic contraction, Ukraine's economy has had six years of consecutive growth during which Gross Domestic Product (GDP) has expanded by more than 50 per cent. This period of growth is forecast to continue with projected growth in 2005 at 7 per cent. Past improvements in fiscal management, combined with sustained export-led growth, lowered public and publicly guaranteed debt from 67 per cent of GDP in 1999 to 25 per cent in 2004. However, large pension increases – which now account for 15 per cent of GDP - associated with the 2004 election have led to deterioration in fiscal performance and contributed to a rise in inflation. The fiscal deficit is expected to reach 3.8 per cent of GDP by the end of 2005. Growth in the period 2005–2006, is expected to be largely consumption driven due to the social orientation of the government's fiscal policy

In recent years consolidated budget¹ spending in Ukraine grew from 27.3 per cent of GDP in 2000 to over 30 per cent in 2004, which reflects an expansionary trend made possible by favourable macroeconomic conditions and an accelerated pace of privatisations. The simultaneous improvement in public expenditures, and improvements in the use of public funds, has been attributed to the Budget Code introduced in 2001 and to improvements in Treasury operations². However, problems with the composition, quality and equity of public services provided still remain. Workable priorities and medium term strategic planning³ are largely absent and there is a lack of measurable targets that allow ex post evaluation of policy and programme outcomes. This has created an imbalance in the relationship between the structure of centralised and decentralised functions that has left local tiers of government – which are largely

¹ Article 6 of the Budget Code defines the **consolidated budget** as an aggregate of all budgets. The composition of the consolidated budget, which is principally bifurcated between the **State Budget** and the **Consolidated Local Budgets**, is depicted in diagram 2.1 below

² Institute for Economic Research and Policy Consulting (2004)

³ **Strategic planning** involves the identification of a desired outcome and the development of a sequence of actions that will achieve this outcome, based on an analysis of an organisation's resources and the environment within which it operates. Strategic plans help organisations, governments and communities to think through what they want to achieve and how to do it. Putting strategies into practice and acting strategically ensures that organisations are focused on the things that really matter and are not being buffeted by events or short-term distractions (See Chapter 3).

responsible for the management and delivery of social services - without adequate sources of finance.

In the context of developing workable priorities for the policy baseline measures of PEM, intergovernmental fiscal relations⁴ play a crucial role. Setting strategic aims enhances public accountability and enables the Verkhovna Rada to judge more clearly the government's effectiveness. In an administration such as Ukraine's, where power is exercised by the state through a combination of centralised and decentralised functions, strategic planning can help ensure that all levels of government are working together to deliver the priorities set for social services. The increasing levels of decentralisation that have taken root in Ukraine over recent years means that strategic planning is even more important in helping different levels of government to plan and work together effectively. It also means that the role of Ministries – with legislative and policy responsibilities for social services – needs to change from one of prescribing *input* standards and normative requirements [as defined by the *Law On State Standards and State Guarantees* and the *State Classifier of Social Standards and Norms*] to one of setting the framework for strategic plans and *output* standards within which different tiers of government make detailed decisions in keeping with local circumstances. In the context of reforming social services, strategic planning – which by definition has to be set for a reasonable length of time - needs to be understood as a process by which the Government decides what the desired medium term policy outcomes are, evaluating options for achieving outcomes, and determining the most efficient and effective policies based on an analysis of available resources and the institutional environment. These strategic plans then need to be used to inform annual plans of activity to ensure that the government's activities are targeted at achieving strategic goals.

Achieving Fiscal Discipline

Ukraine inherited, from the Soviet period, a centralised system of intergovernmental relations that did not correspond to new realities of an independent state and prevented stabilisation of the nation's budget system⁵. The system also inhibited efforts by local authorities to carry out their duties and to provide citizens with an appropriate range of social services. In the absence of transparent mechanisms for the budgetary process, rules for the distribution of budget resources were [based on the Law on the Budgetary

⁴ The institutional framework for intergovernmental fiscal relations is principally based on the following legislative underpinnings: the Constitution (June 1996) - which defines the basic functions of local self-government, the central government, its executive bodies, and their responsibilities; the Law on Local Self Government [May 1997] – which provides the basis for the functioning of local government finance; the Law on Local State Administrations (April 1999) – which outlines the duties of central government bodies at Obalst and Rayon levels; and the Law on the State Budget – which is approved on an annual basis by the Verkhovna Rada [The Parliament].

⁵ The term **budget system**, which is an integral part of PEM, refers to the combination of *budgets* and *funding allocations*. *Budgets* essentially focus on forecasting funding allocations, and dividing the total resources available into a detailed breakdown between competing activities or services. A practical definition of budgets is that they are operational plans of an organisation expressed in monetary terms. *Funding allocations*, on the other hand, refer to the authorisation to spend public money on approved purposes – normally expressed in totals of cash-limited revenue or capital expenditure.

system 1990, and 1995] arbitrary and decisions were made on an *ad hoc* basis; and the minimum amount of expenditures was calculated by state administrations [e.g. line Ministries] at the upper levels of government. This was done in accordance with established minimum [input oriented] standards as defined in the *Law on State Social Standards and State Guarantees*, and the *State Classifier of Standards and Norms*⁶.

The advent of the Budget Code in 2001 marked a new phase in PEM. The Budget Code, which is accompanied each financial year by a State Budget Law [Article 38 (1)]⁷, established new foundations for the budget system in Ukraine and has had significant implications for strategic planning, policy development, budgetary planning and the delivery of social services – which is *delegated*⁸ to lower tiers of government. Broadly speaking the policy intentions behind the Budget Code can be categorised along four dimensions:

- To create an effective procedural framework for making budgetary decisions and their effective application;
- To improve the system of inter-budgetary relations between different tiers of government by dividing local governments into three separate and independent local budgetary units – Oblasts, cities and rayons⁹;

⁶ It is noteworthy that the Budget Code makes no reference to the application or efficacy of either of these laws, and in effect renders them irrelevant to the determination of subventions from the State Budget or equalisation transfers from the Consolidated Local Budget, and to performance measures for social services.

⁷ The State Budget Law sets the framework for the annual budget, but this can be modified – in an incremental manner - through additional legislation during the financial by the Verkhovna Rada, and the Cabinet of Ministers (CoM). For example, in 2004 amendments were made to the Personal Income Tax [PIT] Law; VAT payments, and forecasting consolidated budget revenues, auditing, salary rises, intergovernmental relations between Rayon budgets and the budgets of villages, settlements and cities, modifications to the formula on the distribution of intergovernmental transfers. This pattern of continuous amendment suggests that too much discretion on what are essentially matters of principle [e.g. transparency, equity, and accountability] are left to deliberation during preparation of the State Budget Law and/or separate resolutions of the CoM. This practice has significant knock-on effects the way the methodology specified in the Budget Code is applied in practice – particularly in relation to the determination of equalisation transfers and the development of medium term expenditure plans.

⁸ Under the framework of *delegated* functions, responsibility for each functional budgetary is divided between different levels of government that are funded from the Consolidated Local Budget and *subventions* from the State Budget. For residential social services this means that some institutions are subordinated to Oblasts, some to cities and some to rayons. This arrangement makes strategic planning, policy development, budgetary co-ordination, and performance measurement complicated. Under a licensed-based contractual regime of commissioning and provision of community-based social services – as advanced within the Law on Social Services – it is extremely difficult to envisage how the current institutional arrangements would operate without a major re-design of the division of responsibilities and functions between different tiers of local government. **Indeed, much of the responsibility for the provision of community-based social services falls under Article 91(3) of the Budget Code which means that such services cannot be taken into account in defining the amounts of inter-governmental transfers from either subventions from the State Budget or equalisation transfers.**

⁹ The Budget Code created over 10,000 budgets spread across state level organisations, oblasts, cities, rayons, towns, villages and settlements.

- The introduction of common budgetary language that defines conceptual language and the roles and functions of budgetary authorities at central [i.e.; state] and local levels¹⁰; and
- Provided, following amendments to Article 38 (5-(2) (3) in 2003, a framework for new legislation to be considered in the context of the annual Budget Law.

The main principles embodied in the Budget Code can be characterised in the following manner:

- State and local budgets are separate structures that are only substantively linked through *transfer payments* – thus Oblast, rayon and city councils [Rada’s] act independently in formulating and approving their separate budgets which allow these tiers of government to, within limits, determine their own expenditure priorities;
- Budgetary decisions are based on the principle of *subsidiarity* – with expenditures assigned to different budgets with the aim of decentralising responsibility for expenditures to the lowest tier of government that can effectively carry them out.
- The development of *realistic* forecasts for planned revenues based on common indicators linked to macroeconomic performance of the economy.
- The classification of *revenues* into four categories: tax-receipts, non-tax receipts, receipts from capital transactions, and transfers [from another tier of government]
- The *classification* of expenditures into three divisions: by economic function – for example spending on social services; by economic category – for example wages for social services; and by description – for example definition of the key spending unit responsible for expenditures
- State and local budgets are *independent* of each other. This means that the state budget is not liable for commitments of local self-government bodies; local self-government bodies are not liable for budget commitments of other localities, nor are they liable for commitments made by the state. The principle of budget independence is provided by the assignment of specific revenue sources to local self-government bodies.

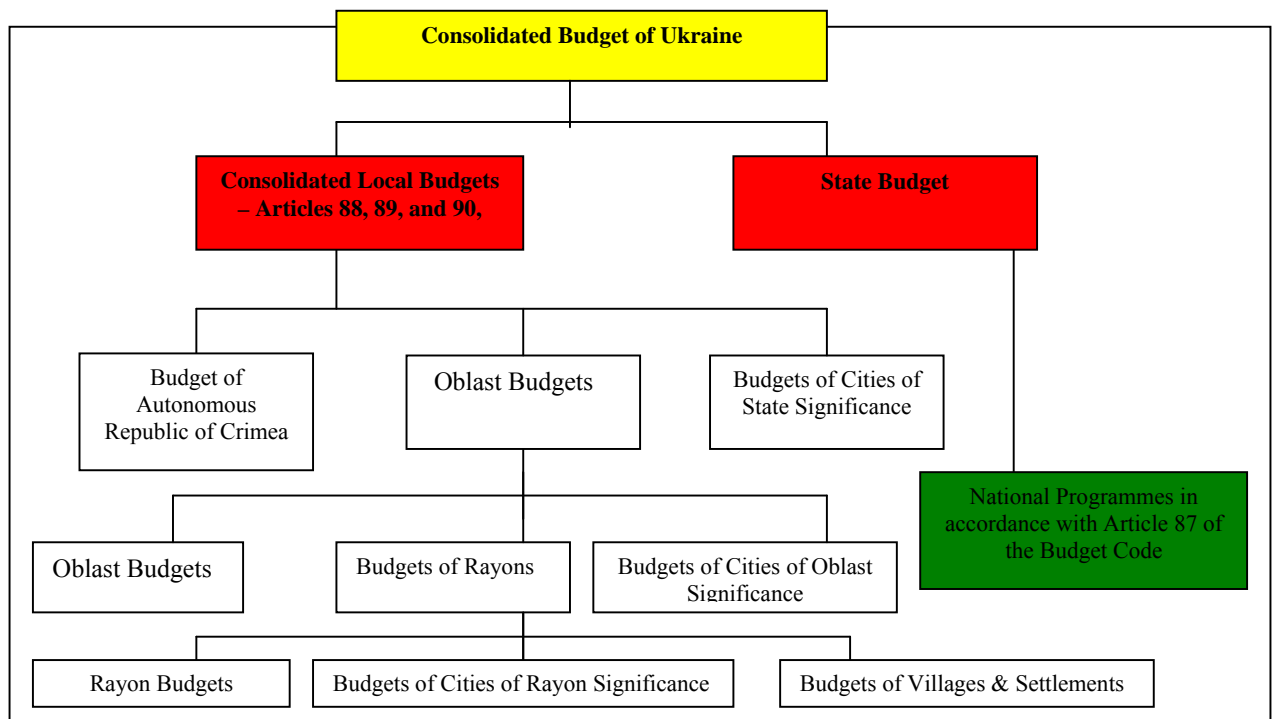
¹⁰ An important dimension to the conceptual language in the budget system was the underpinning introduced through **Programme Based Budgeting [PBB]**. PBB aims to establish a direct relationship between budget allocations and results based on defined objectives and performance criteria. The PBB framework was supported by a standardised 7-digit *budget code* divided across four components. Component 1 identifies the key spending unit [1st, 2nd, and 7th digits]; Component 2 identifies the responsible performers [of which there can be more than one] within the system of the key spending unit [4th digit]; Component 3 identifies the single responsible performer of the budget programme [(5th and 6th digits)]; and Component 4 which identifies the activity area and objectives within a given budget programme [7th digit]. In expenditure terms, PBB assigns legal responsibilities along with rights and duties to specific institutional agencies [i.e. performers] in accordance with the distribution of *centralised* and *delegated* functions as defined in the Budget Code, and between the State Budget and Consolidated Local Budgets. In accordance with this structure centralised *State programmes* are executed by and through different ministries simultaneously, while *programmes* are executed through separate line ministries. *Delegated* functions, such as social services provided through residential institutions, are administered through local tiers of government.

In accordance with these principles the most radical breaks from previous PEM and budgetary planning practices incorporated:

- The separation of budget funds between general and special funds;
- The pooling of revenues from the tax take, and its division into three ‘baskets’;
- The division of local tiers of government in the Budget Code into three separate and independent budgetary units: Oblasts, Cities and Rayons to regulate intergovernmental fiscal relations, and the introduction of an equalisation formula¹¹; and
- The role of line Ministries within the framework of expenditure assignments from the State Budget, and to the development of regulations, norms and input standards to guide the implementation of *delegated* functions.

The diagram below provides an illustration of the budget system based on the Budget Code:

Diagram 2.1: Budget Structure of Ukraine



¹¹ It should be noted that the transfer formula has since 2002 only extended to the rayon level, and not to intra-rayon relations [i.e.; to intergovernmental relations between the rayon budget and budgets in villages, settlements and cities of rayon level significance]. This position was transformed by approval of the Law No 1953-IV of 1 July 2004 – however the operational details and implementation of this law [which is formula based] is yet to materialise and have been absorbed into wider deliberations on the reform of local self government.

General and Special Funds:

The expenditure and revenue side of all budgets are split into two categories; general and special funds¹². The practice of separating budgetary funds into general and special categories was initially introduced in the 2000 Budget, and was subsequently incorporated into the Budget Code^{13, 14}. On the revenue side the general fund includes revenue to the state budget designed for the support of general expenses, and the expenditure side the general fund includes expenditures designed to meet delegated state functions as specified in Article 82 and Articles 88-91 of the Budget Code – which includes residential social services. However, the Budget Code does not provide a formal definition of a special fund, but Article 13 of the Code stipulates that a special fund can be formed from a specifically determined revenue sources be used to finance specific activities. In many respects, a special fund represents a classical case of earmarking in which particular types of revenue are dedicated to the financing of particular kinds of expenditure.

The separation of the budget into general and special funds was not originally intended to introduce earmarking into the budget system of Ukraine. Indeed, special funds were introduced for the purpose of accounting for public funds that had previously been earmarked in numerous extra-budgetary funds [EBFs]¹⁵. A close benefit link can be established only in the case where the consumer of a public good or service pays for what they get. In other words, only those public goods or services that can be excluded from the consumption of people who do not pay can show a strong benefit link. On the other hand, it is not always feasible from an administration point of view to charge directly for services provided even if they are excludable¹⁶. Earmarking revenues in this manner is appropriate if the revenues raised are targeted at particular expenditure, and if there is a close benefit link between the earmarked revenue and the use of such revenues to finance additional expenditures.

¹² For example, revenue side of the budget for residential institutions for the elderly consist of two parts: general and special funds. General funds include allocations from the State budget, while special funds are comprised of three major elements: charitable donations, 75 per cent of a resident's pension, and earned income – e.g., from lease of premises.

¹³ Article 33(10) of the Budget Code requires that “Draft Guidelines of the Budget Policy for the Next Budget Period must contain proposals by the Cabinet of Ministers with respect to...reasoning for the separation of the budget into general and special funds”.

¹⁴ Article 13 defines general budget funds as: all budget revenues, except for those allocated to a special fund; all budget expenditures funded from general fund receipts; and financing of the general budget fund.

¹⁵ Article 13(8) of the budget code disallows the creation of EBFs by state bodies. The exceptions to this rule include the pension fund, the social insurance fund for temporary disability, the national labour and accident and occupational disability fund, and the national compulsory unemployment social insurance fund.

¹⁶ Earmarking is clearly inappropriate in the absence of a direct benefit linkage, thus in the context of reforming social services earmarking revenues from fees – such as home care services for the elderly – may be appropriate

The Pooling of Revenues and the Formation of Revenue ‘Baskets’.

The revenue base is an important element in the formation of local finance. In keeping with Article 142 of the Constitution - which defines the material and financial basis for local self-government – the Budget Codes delineates revenues for local budgets into three components:

- Own revenue – which is collected from sources located within an administrative territory and belongs exclusively to the local authority;
- Fixed revenue – is revenue composed of taxes and dues that are levied and administered by the state, but are allocated entirely to local budgets;
- Regulated revenue - comprised of revenue transferred to local budgets with the purpose of equalisation and the balancing of local budgets to meet minimum spending requirements of local budgets;

These component revenue sources have been classified and pooled into the three ‘baskets’.

- Basket 1 is comprised of personal income tax [PIT]^{17, 18}. At Oblast and rayon levels, 25 per cent of land tax collected within the oblast and 15 per cent of land tax collected within the rayon is classified under Basket 1.
- Basket 2 is dominated by local taxes and fees on land, advertising, communal services [which uses a proportion of payroll taxes as its tax base], parking, the registration of property, vehicles, crafts, agriculture, trade licensing, dog licenses, and corporation taxes. However, given that oblasts and rayons have to include revenues collected from land taxes into ‘Basket 1’, and given that local taxes and fees are mainly collected by cities, towns and villages, their revenues from ‘Basket 2’ is negligible. However, a key significance of ‘Basket 2’ revenues is that they are excluded from the calculation of grants/transfers, which means that cities, towns and villages can increase/improve their collection rates without fear of their grants/transfers from central government being reduced.

¹⁷ PIT is shared among administrative units with Kyiv and Sevastopol retaining 100 per cent of the tax take, cities retaining 75 per cent and corresponding oblasts 25 per cent; towns and villages retaining 25 per cent and corresponding oblasts 25 per cent, and 50 per cent to corresponding rayons.

¹⁸ Aside from PIT and equalisation grants [which exclude revenues from baskets 2 and 3], ‘basket’ 1 is comprised of revenues from state duties, license fees, stamp duties, patent fees, administrative penalties, and taxes on small businesses. Revenue calculations for the allocation of local government budgets in the first ‘basket, which are included in the calculation and determination of equalisation transfers are defined in Articles 64 and 66 of the Budget Code.

- Basket 3 is comprised of bonuses for the collection of national taxes such as Value Added Tax [VAT], corporation profit tax etc., over and above revenue estimates from these sources.

Within this revenue framework local tiers of government can shift or assign – without reverting to the Ministry of Finance [MoF] - spending priorities from revenues generated from all three baskets¹⁹. However, there are number of peculiarities associated with this arrangement – particularly in relation to PIT which is paid in the local jurisdiction where a person works [i.e.; the origin principle] rather than in the area where they reside²⁰. This practice generates an anomaly given most local public services – for example, education, health, and social services – are consumed in the area where people live rather than in the area where they work²¹. It also means that local tiers of government lack a significant marginal revenue resource given that that revenues generated from local taxes and fees account, on aggregate, for less than 4 per cent of total revenues, and land taxes account, on aggregate, for less than 9 per cent of local revenues. Thus, without a buoyant source of marginal revenues the expenditures of local governments’ are by and large driven by the amount of transfers and revenues assigned to them under Basket 1 – which is primarily [around 90 per cent] generated from PIT. This means that under current arrangements, expenditures for social services – which are dominated by residential institutions – are largely funded from revenues generated through Basket 1 with the equalisation transfer [see below] accounting for a substantial proportion.

Under these conditions, local tiers of government are constrained in their ability to respond to local demands for more or fewer public services – such as social services. Local tiers of government are thus deprived of the fiscal tools that would allow them to behave in a more fiscally responsive or responsible manner. Indeed, effective fiscal decentralisation has to go hand-in-hand with local tiers of government being able to control a major marginal revenue source. However, despite deliberations on identifying sources [see footnote 13 above] for reliable and dependable marginal revenues it is

¹⁹ If local tiers of government intensify their tax collection efforts and raise more revenues, then they are allowed to spend more. However, they do not have the right to spend less on expenditure items [e.g. education, health care and social services] delegated to them by central government. This is because expenditure on items delegated to local tiers of government by central government have spill over effects that benefit the population outside local administrative boundaries.

²⁰ In 2002 the draft law “On Local Taxes and Fees”, which was subsequently incorporated into the draft Tax Code, proposed that city and rayon governments’ should be empowered to levy a surcharge of between 1 and 3 per cent to the yield from the nationally determined PIT. This approach would yield an anomalous PIT system in which the residence principle would be applied to income tax surcharges, while the origin [employment location] principle would continue to apply to normal income collections. It is understood that deliberations on defining a dependable source of marginal revenues – including the option of a local property tax - for local tiers of government is on-going.

²¹ This anomaly is a hangover from Soviet times when most employees resided in the communities where they were employed. However, with the relaxation of the system limiting residential choice, many people now work in areas where they are not registered for residential purposes [i.e.; they live in one locality and commute to work in another locality]

unlikely that EU style property tax based systems – linked to market value assessments of residential and business premises – can, or will, be introduced in the near term.

Equalisation Transfers and Inter-Governmental Fiscal Relations: Applied to Social Services

The framework for regulating inter-governmental fiscal relations is outlined in Chapter 13 of the Budget Code. Decentralisation dispenses with one of the advantages of a centralised fiscal system, namely the ability to pool revenues and to allocate them in an even-handed fashion to lower level expenditure units. Thus decentralisation inevitably leads to the emergence of regional fiscal disparities, as some administrative units will have richer tax bases than others. The equalisation framework, which is rooted in a formula-based equalisation transfer²³ from central government, is therefore designed to: cover the gap between local government's expenditures to finance essential programmes and activities; move away from a practice – under the previous system – in which local tiers of government overestimated expected budget revenues and expenditures, where deficits were often artificially created in order to claim an increase in transfers from the centre; and increase the level of certainty and predictability of budgets at the sub-national level by actually delivering the transfer amount.

The explicit and uniform equalisation formula was introduced in 2001 and as a transition phase was initially applied to oblast level budgets. The equalisation formula was subsequently extended to all oblasts, cities and rayons in 2002. The new system of equalisation transfers has many positive features – including the fact that expenditure norms are used to derive client based expenditure norms [as opposed to being input based]. The equalisation system, which was approved by the Council of Ministers in 2001²⁴, blends a horizontal “fraternal” approach whereby worse-off local governments receive an equalisation grant, while better-off local governments contribute to the pool with a vertical funding system [based on *subventions* from the State Budget] in which central government contributes to the overall amount of transfers. Thus the total amount transferred exceeds the [fraternal] contributions of better-off local governments.

From the perspective of local tiers of government the most important fiscal decisions affecting the amount of budgetary resources at their disposal are the *expenditure norms*²⁵

²³ In addition to the equalisation grant, which provides unconditional funding to local governments, the central government also implements several categorical or conditional transfers to local government to cover communal services, national social protection programmes – such as cash benefits, and housing costs for the military.

²⁴ Procedure for the calculation of inter-governmental transfers [comprised of equalisation grants, subventions, and contributions to the State Budget], are structured in accordance with the Resolution of the Cabinet of Ministers 2001. However, it should be noted that procedures have progressively become less transparent due to negotiations within the annual Budget Law

²⁵ The essential idea behind the use of *expenditure norms* is that the measurement of expenditure needs should reflect the demand for public services, and should be constrained within the limits of available resources to meet those needs. In keeping with the “fraternal” approach the allocation principle that

used to determine subventions from the State budget - given that the norms outline the total expenditures from the consolidated budget and the state budget, and the fraction of total expenditures to be undertaken by local governments. The expenditure norms are designed to meet several criteria:

- Common applicability across all tiers of local government;
- Establish a framework for objective measurement;
- Reflect, and take account of, observable differences in the level of local government expenditures; and
- Control on demand for public services should rest on demand/need for public services rather the way local tiers of government may choose to cater to demand/need.

The primary methodology, using the expenditure norms, for the equalisation formula is based on the following variables:

- V = Volume of total local government spending in the State Budget;
- V_i = Volume of estimated expenditure needs in the i 'th Oblast ("i" is used to refer to an entire Oblast, while "j" is used to refer to the oblast level administration and cities and rayons within an oblast).
- P_i = Population of a given Oblast
- P_u = Population of Ukraine
- K_i = A co-efficient measuring the extent to which health needs in a given Oblast differ from the national average need.
- S_i = The weighted number of students in the i 'th Oblast²⁶
- S_u = The weighted number of students in Ukraine
- R_i = The number of social protection recipients in a given Oblast²⁷
- R_u = The number of social protection recipients in Ukraine
- φ_k = The share of total expenditure "V" allocated to the k 'th expenditure function.

underpins expenditure norms dictates that local tiers of government with higher than average demands should receive a higher than average amount of resources to meet those needs.

²⁶ In the case of weighted student numbers, students are distinguished by type of institution they attend – e.g.; kindergarten, specialised secondary school, general secondary school, part-time education, vocational and higher education. Differential weights are applied to each type of institution and their location to reflect costs

²⁷ Social protection focuses on cash benefits and on social services for adults/children in residential care, and is broken down by type of local government and type of social protection programme. This is then used to determine the appropriate size of targeted transfer. Cash benefits and social services affect the calculation of expenditure needs of each local government, and the size of the equalisation transfer. The variable "R" is therefore interpreted as the number of recipients of a range of cash benefits and residential social services rather than the number of recipients of all kinds of cash benefits and social services. Moreover, R_i is used as the proxy measure for poverty. It should be noted that many community-based social services are currently not included in the equation and are assumed to fall under Article 91 of the Budget Code.

The formula determines the pattern of local government spending given that that each Oblast is a sum of its local government parts – i.e. the Oblast level administration itself plus all the cities and rayons within the territorial boundaries of the Oblast. To determine per capita expenditure needs in the i'th Oblast the composition of expenditure is primarily defined by five broad expenditure functions which are denoted as follows: state administration – V_a ; health - V_h , education - V_e , Culture and Sport - V_{cs} , and social protection – V_s . The expenditure norms are then applied to allocate these functional amounts among oblasts according to the formula. The expenditure formula is represented in the following expression:

$$V_i/P_i = V/P_u (\varphi_a + \varphi_h K_i + \varphi_e (S_i/P_i \div S_u/P_u) + \varphi_{cs} + \varphi_s (R_i/P_i \div R_u/P_u))$$

The formula simply states that per capita Oblast spending for transfer related expenditures will be equal to the average per capita spending in all Oblasts (V/P_u), and modified by the degree to which a particular Oblast's expenditure needs – in different functional areas – departs from the national average. In other words, the sum of terms in the large brackets of the expression provide an objective measure of the extent to which the expenditure needs of a particular Oblast depart from average on account of economic, demographic and environmental factors in the Oblast. However, the Budget Code also deals with the calculation of expenditure needs of Oblast level administrations', cities and rayons. Thus the formula disaggregates the constituent expenditure needs [based on the core expenditure functions of state administration, health, education, culture and sports, and social protection] of the different local government tiers within an Oblast based on weighted data [e.g.; S_i for education, and R_i for social protection], and on the share of Oblast spending on particular functions.

The purpose of calculating needs according to expenditure norms is to determine the transfer amounts [from central government] that will – at least in theory – ensure that every local budget has sufficient resources to realise the expenditure levels envisaged by the norms. The formula used for the calculation of equalisation transfers is based on the equalisation transfers [T_i], which is defined as the difference between estimated delegated expenditures and forecasted delegated revenues [D_i]. The difference is then multiplied by the equalisation coefficient [α_i]. The formula is based on CoM resolution 1195 “*On the approval of the formula for the distribution of inter-governmental transfers between the state budget and the local budgets*”²⁸ which specifies the methodology for the calculation of equalisation transfers for the Autonomous Republic of Crimea, Oblasts, cities and rayons, and is presented in the following expression:

$$T_i = \alpha_i (\text{Expenditure} - \text{Revenue}), \text{ where:}$$

²⁸ The formula has subsequently been elaborated and amended for health, education and social services institutions by CoM resolutions 1569-2001-n (22 November 2001); 1746-2001-n (27 December 2001); 1382-2002-n (14 September 2002); 1426-2003-n (9 September 2003); 1761-2003-n (12 November 2003); 1203-2004-n (14 September 2004); 1652-2004-n (13 December 2004); 1787-2004-n (31 December 2004) and 196-2005-n (23 March 2005)

T = Equalisation Transfer

Exp = Estimated expenditure needs

Rev = Forecasted revenue capacity

α = Coefficient of equalisation

The *coefficient of equalisation* is used to determine the amount of equalisation grant and transfers to the State budget of Ukraine²⁹. According to the Budget Code [Art. 98], the design of formula for equalisation transfers has to be defined by resolutions of the CoM, and these resolutions are expected to be based on the following parameters:

- The financial normative and corresponding corrective coefficients,
- The number of residents or number of recipients of social services,
- The index of relative fiscal capacity and forecasted delegated revenues,
- The coefficient of equalisation.

However, because the expenditure side of the formula has been elaborated and amended for social services institutions, that fall under the legislative mandates of the MoLSP, the MoES and the MoH, by a variety of CoM resolutions³⁰ the outcome - over time – has resulted in the further separation of calculations for different types of social services. Thus the ways in which residential institutions [mainly Baby Homes] under the legislative mandate of the MoH are funded within the formula differ significantly from those residential institutions the legislative mandates of the MoLSP [mainly residential services for the elderly and the disabled and territorial centres]; and the MoES [mainly residential services provided in special schools]. The cumulative effects of these amendments now mean that the expenditure calculation for residential institutions that fall under the legislative mandate of the MoH is based on the population profile of an administrative unit, while institutions that fall under the MoLSP and MoES are based on the number of actual residents in institutions [or in the case of territorial centres – the number of users].

Moreover and crucially, some services – such as community-based early rehabilitation centres [CBERCs] – are entirely overlooked in the formulae, resulting in ad hoc funding arrangements being made by Oblasts, cities and rayons; and community-based social services for children, the elderly and the disabled are also overlooked and assigned to the financial competencies of municipalities and rayons. This is a de facto assignment of

²⁹ The coefficient of equalisation is the policy variable that defines the level of equalisation. Thus when the equalisation co-efficient is equal to 1 the transfer from or, to the central budget, is to cover 100 per cent of the either positive or negative gap between expenditure needs and revenue capacity. Similarly, when the equalisation coefficient equals 0.9 – the transfer is to cover 90 per cent of the gap.

³⁰ See: footnote 28 above for a list of the CoM resolutions that have been deployed to elaborate and amend the expenditure side to the formula.

some community-based services [such as CBERCs] to the financial competencies of local governments, although, according to the Budget Coe, social services is a “delegated” function.

The purpose of calculating needs according to expenditure norms is to determine the transfer amounts [from central government] that will ensure that every local government budget has sufficient resources to realise the expenditure levels envisaged by the expenditure norms. In theory the budget system – including the system for the allocation of equalisation transfers - provides a degree of freedom for a particular tier of local government to decide whether to spend a little more of its budget on delegated function ‘y’ as opposed to ‘x’ [e.g., more on social services than culture]. However, because of the limited scope open to local tiers of government to raise marginal revenues there is a discrepancy between the theory and practice, which means that most important features in the budget system are:

- The total amount of spending set forth in the State Budget;
- Spending priorities, which are measured by expenditure shares, which have led to the growth in un-funded mandates due to the emphasis given to past expenditure trends rather than demographic demands, and the evolution of legislative directions such as the Law on Social Service and related legislation

The discrepancy between theory and practice has a number of direct consequences for social services:

- It reinforces the use of residential institutions, because the number of residents in institutions is used as the basis for calculating intergovernmental budgetary transfers for residential institutions that fall under MoLSP and MoES;
- It brings about and reinforces un-funded mandates which are generated by separate line Ministries. The un-funded mandates arise because – in the context of limited marginal revenues that can be generated by local tiers of government – municipalities, cities and rayons have limited means to provide community-based alternatives to residential institutions
- The development of norms and standards for social services - by different line Ministries - creates dissonance between expenditure obligations and a local budgets’ revenue base. This is to the degree that, in many cases, the revenue base turns out to be insufficient to fully carry out expenditure assignments specified in norms, standards, and regulations. This, in turn, creates an imbalance in the distribution of responsibilities and accountabilities [for example, the increased use in targeted subventions from the state budget to fund social services – see Chapter 3] between centralised and decentralised functions, and reduces opportunities for diversifying service provision to meet demand.

The dominance of these driving forces is reflected in the fact that the share of transfers and direct subsidies in local revenues increased from 34.2 per cent in 2003 to over 44 per cent in 2004, thus making local tiers of government increasingly dependent on central government; at the same time the share of own revenues in local budgets fell from 19.2 per cent in 2003 to just under 17 per cent in 2004. Table 2.1 below provides an overview of the official trends in public finances [in UAH] and the level of importance – as a percentage of GDP – that equalisation transfers play in intergovernmental fiscal relations.

Table 2.1 Public Finance Trends and Equalisation Transfers 2002-2005:

Year Public Finance Variables	2002 UAH	2003 UAH	2004 UAH	2005 UAH
GDP	225,810,000,000	267,344,000,000	344,822,000,000	409,500,000,000
Consolidated Revenues (State and Local Budgets)	59,259,000,000	75,285,792,000	91,529,413,000	133,349,357,000
State Revenues (Excluding transfers)	42,299,000,000	52,708,395,000	68,744,543,000	105,449,416,000
Equalisation Transfers to Local Budgets	4,253,000,000	5,905,519,000	7,356,449,000	11,083,243,000
Equalisation Transfer from Local Budgets	3,091,000,000	2,368,504,000	1,593,209,000	1,322,801,000
Equalisation transfers as a percentage of GDP	1.9	2.2	2.1	2.7

Source: MoF and Derzhkmostat data

The Role of Central Government Line Ministries and the Provision of Social Services

While the transfer system – which has been operational since 2002 – has established a rationale basis for the budgeting and the allocation of funding, it is notable that on the expenditure side the structure of local budgets is dominated by delegated responsibilities supported by a centralised system of norms for different local budgetary provisions. The

system, by and large, tends to ignore strategic planning, policy co-ordination and the application of economic criteria for the efficient provision of public services – such as territorial equivalence, administrative capability, and economies of scale. Indeed the division of functions incurs high transaction costs for both central and local tiers of government, and the rationale underpinning the distribution of functions across different levels of government is not completely clear. On the expenditure side, there appears to be no convincing argument for making expenditures on non-residential social services solely a local government responsibility. The assignment of these tasks under Article 91 appears to have emerged as matter of historical fiscal expediency designed to cope with, and minimise, the deficits of central government that accrued at the time the Budget Code was enacted. The outcome has clearly resulted in the magnification of un-funded expenditure mandates and raises the prospect of deficit pressures on local budgets.

An Evaluation of the Budget Code and the Implications for Social Services:

Taking into account the six *process* dimensions of PEM [See Chapter 1] it is possible to assess the extent to which fiscal discipline has been achieved by the introduction of the Budget Code, and to identify some of the weaknesses with respect to the reform of social services and the implications for the Law on Social Services. **Table 2.2** below provides an overview:

Table 2.2 Assessment of the Achievement of Fiscal Discipline

Processes	Comments
Political Engagement	The adoption of the Budget Code, the separation of general and special funds, the pooling of revenues, and the introduction of the equalisation formula have been formidable steps forward in improving PEM. However, in the context of reforming social services the delegation of this function to local tiers of government has generated the fragmentation of policy across line Ministries and splintered service delivery across different administrative and budgetary units - which reduce opportunities for effective political engagement.
Policy Clarity, consistency and affordability	The system underpinning the Budget Code is consistent, and the application of the equalisation formula has introduced a greater level of consistency across different tiers of government. However, the formula relies heavily on the availability of relevant data across different tiers of government. Presently the formula and the budget system only take account of the number of people in receipt of cash benefits and in residential care - as a proxy indicator of poverty. This means that social services, particularly community-based social services are omitted from the equalisation formula. Furthermore the system, in the context of constrained marginal revenues that can be raised by local tiers of government and the way in

	which the revenue and expenditure coefficients are applied - generates un-funded mandates.
Predictability	The equalisation formula has improved the predictability of local budgets. However, it would appear that many decisions and details are left to the vagaries of the accompanying annual State Budget Law, or to particular Resolutions of the Council of Ministers. For non-residential social services the Budget Code is largely silent – aside from identifying the <i>de-concentrated</i> nature of these services.
Transparency	The Budget Code outlines the process for budget formulation and execution, and there is an explicit assignment of expenditure responsibilities and sources of revenues. However, there is little to guide the type of results that are to be achieved, and the calculation of expenditure needs is complicated. For social services the Budget Code offers little in the way of increasing transparency in resource allocation, or for making trade-offs and choices between resource allocations that would achieve a <i>Balance of Service Provision</i> between residential and community-based services – particularly when different formulae are applied to determine expenditures for similar types of residential provision.
Comprehensiveness and Integration	The principles behind the Budget Code provide a basic structure for financing public services. However, the separation of policy from budgetary responsibilities across the State Budget and Consolidated Local Budgets constrains opportunities for fully capturing the activities of government in the field of social services. The intergovernmental transfer system reinforces the use of institutional services, and fails to grant sufficient fiscal recognition of community-based social services in either the state or consolidated budgets. Moreover there is a wide disconnection between the Budget Code (which guides the budgetary system) and the use, by line Ministries, of the Law on State Social Standards and State Guarantees and the State Classifier of Social Standards and Norms. To all intents and purposes the latter are a hangover from the (now defunct) Law on the Budgetary System 1990 and 1995.
Accountability	There should be a national interest in providing adequate resources to all tiers of local government for delegated functions. Moreover, there is national interest in making sure that an assessment of fiscal capacity takes account of new legislative demands – such as the Law on Social Services. Under current arrangements there is an imbalance between centralised and decentralised functions which results in line Ministries setting norms and standards

Conclusion and Defining Strategic Options:

It is clear from the preliminary assessment of the PEM that the Budget Code has established a solid framework for budget management and is without doubt a significant improvement on practices that prevailed prior to 2001. However, the calculation of transfers is quite complicated and does not necessarily take account of the true tax collection potential of local tiers of government. The privileged position of cities like Kyiv and Sevastopol, and other cities, in the system of intergovernmental fiscal transfers

creates anomalies that reinforce regional and spatial inequalities. On the expenditure side, the structure of local budgets and delegated responsibilities are dominated by different normative frameworks [such as the State Classifier of Social Standards and Norms] set by centralised decision-makers in line Ministries thereby creating dissonance between the principles of the Budget Code and the operational activities of line Ministries which draft regulations and guidance without reference to the fiscal capacities of local tiers of government. This pattern indicates that the principle of ‘presumptive competence of local self-government’ – which would clarify the division of responsibilities between different levels of government - is absent from Ukrainian legislation. As a result some public activities [such as community-based early rehabilitation centres for early rehabilitation (CBERCs)] are not clearly assigned to any specific level [which is in breach of Article 4 of the European Charter on Local Self Government]; and, on the other hand, significant areas of community-based social services are excluded from consideration in inter-governmental transfers which makes strategic planning [within the framework of a *Balance of Service Provision*] extremely difficult to achieve; and creates the risk of high efficiency losses which will result in a failure to generate economies of scale across unevenly sized administrative units with different fiscal endowments.

Against the scenario outlined above the next chapter of the diagnosis of the PEM focuses on a preliminary analysis of the budget system in the Ministry of Labour and Social Policy [MoLSP] and the Oblasts of Khmelnytsky and Kharkiv – within a framework that focuses on setting and promoting strategic priorities. Although this chapter indicates that much remains to be done before government objectives towards the reform of social services can be effectively realised, the introduction of the Budget Code combined with improved growth and fiscal performance, place the Government of Ukraine in a position that enables further elaboration of a sustainable PEM system that will support a *Balance of Service Provision* model for the delivery of social services. The PEM system for social services will, however, need to focus on setting and promoting strategic priorities for implementing the Law on Social Services and related legislation.

Chapter 3: Setting and Promoting Strategic Priorities

A Review of Centralised and Decentralised Decision Making in the Management and Reform of Social Services

Introduction

In the real world politicians must initiate, support, or accept new policies if change is to occur. In Ukraine, the Government Action Programme [GAP] therefore plays a prime role in setting and promoting strategic priorities for change. However, the interpretation of official pronouncements can, under conditions of transition, provoke havoc because of dissonance between approved policy and its implementation in practice. The reasons for this dissonance can in many cases be traced to the fact that institutional rules are unstable and are changed frequently. Thus a formal analysis of setting and promoting strategic priorities - in the context of reforming the existing structures for the delivery of social services and establishing a framework for implementing the Law on Social Services – cannot be based on assumptions that appear logically compelling but empirically false. In a decentralising administration such as Ukraine's, the process of setting and promoting strategic priorities can only be assessed by opening-up the 'box' of decision-making, and drawing some conclusions that are contingent on a description and analysis of what is happening. The objective behind this approach is twofold: (i) to identify how decisions are made and on what basis; and (ii) and allow the possibilities of change to be initiated and championed based on the evidence. In the context of increasing levels of decentralised decision-making in Ukraine, strategic planning - which is different from economic forecasting – is critical for assisting different levels of government to plan and work together effectively.

This part of the report, which draws on the analysis presented in chapter 2 on the budget system and budget processes, is divided into five complementary parts:

- Strategic Planning in government – with a particular focus on contributions to government objectives ;
- The formal structures of Strategic Planning in the Government of Ukraine;
- The role of the Ministry of Labour and Social Policy [MoLSP] in the context of the PEM system for social services;
- Fiscal Decentralisation, administrative and budgetary systems for social services in the Oblasts of Khmelnytsky and Kharkiv; and
- An Evaluation of Setting and Promoting Strategic Priorities

Strategic Planning in Government:

Strategy involves an element of choice between alternative ways of organising, managing and doing things. The concept of strategy – which helps give coherence and growth to complex organisational arrangements¹ - is linked not only to questions of making

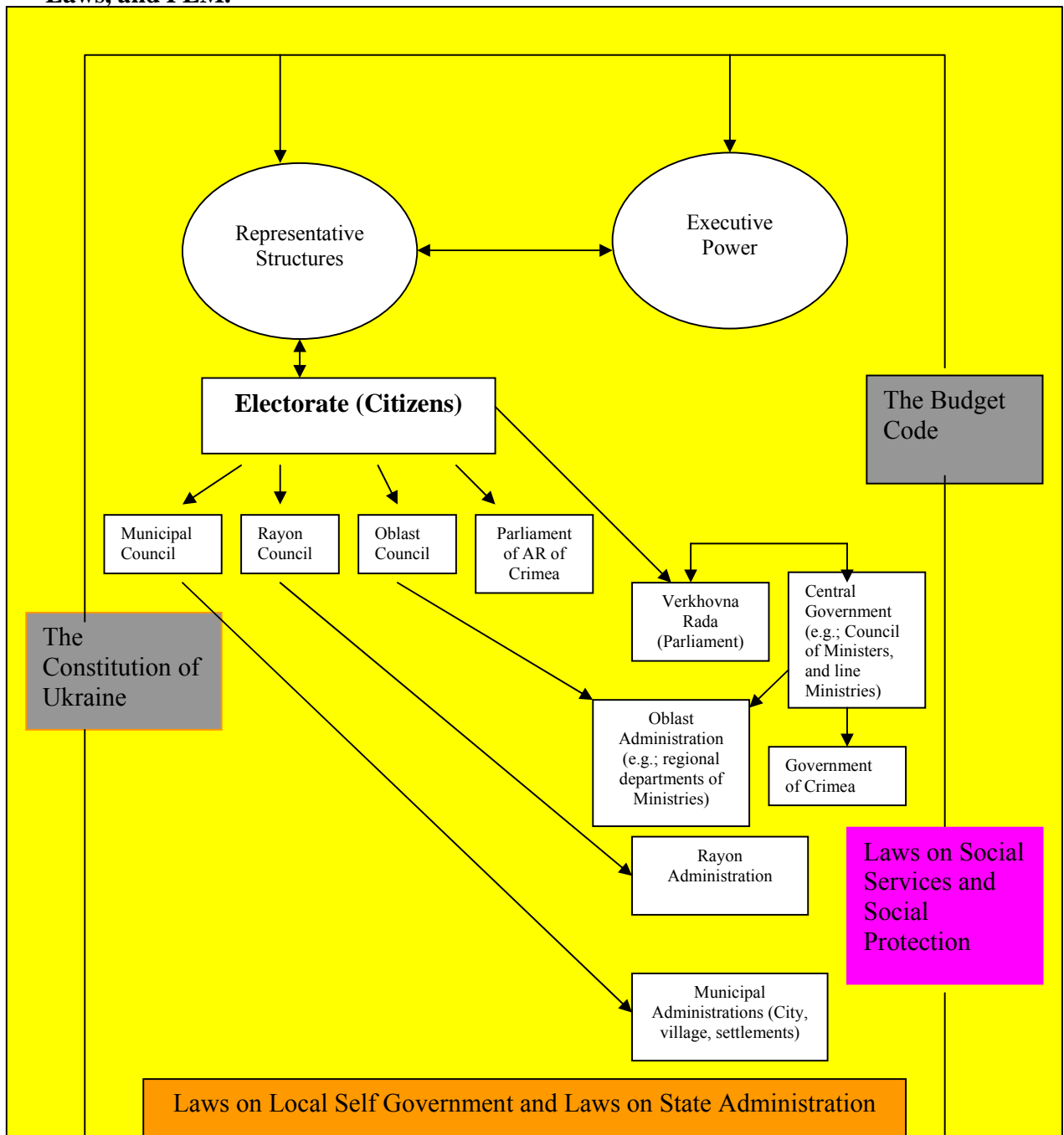
¹ Ansoff, I.; and McDonnell, E.; (1990)

decisions about a choice between different options, but also to the structure of power relationships between people and organisations, and to patterns of interaction. Strategic planning therefore helps people and organisations think through what they want to achieve and how they will achieve it. In government, putting strategies into practice and acting strategically ensures that organisations focus on the things that really matter and allocate human, financial and administrative resources accordingly. The thrust of strategic planning is not simply to support the case for more strategic thinking on the part of decision-makers since the issues confronting government are usually more complex than the choice between following a strategy and not following one.

Undoubtedly many instances could be found of situations where piecemeal policy making on social services is uninformed by a strategic perspective and would benefit from the introduction of strategic planning; but, since there are usually several possible courses of action for government to follow in elaborating its plans for social services, the arguments will more often than not have to be made in terms of the advantages and disadvantages of alternative strategies. There is a huge literature on strategic planning in business and warfare; strategy in government is similar, but tends to be more complex in its application. It generally involves multiple goals rather than one single bottom-line, and much less focused on competition and zero-sum games or managing exits. It uses a range of policy levers, including laws, entitlements, obligations, taxes and services. It is shaped by politics and driven by politicians and the creation of *public value* [See Chapter 4] - which provides a yardstick against which to gauge the performance of policies and public institutions, make decisions about allocating resources and select appropriate systems of delivery.

It is possible for governments to get by with improvisation, ideology or luck. But many of the most successful governments in the EU have placed strong emphasis on strategic planning as a tool for achieving their objectives, particularly in the area of economic growth and social policy, and in measures for supporting social cohesion and social integration. Countries with similar levels of income and economic growth over the last decade have seen significantly different impacts on poverty, social cohesion and social integration. These differences partly reflect divergences in the ability of governments to develop, streamline, and apply strategic planning tools. These differences are compounded by variations in the efficacy of delivering public services, especially measures for delivering social services to those at risk of being socially excluded from the benefits of economic growth, and from the effects of demographic change. Strategic planning in government therefore needs to be more transparent and accountable than strategy in other fields because it is rooted in the structures of representative power, executive power, specific laws [e.g.; local self-government, state administration, social services, and the interface with PEM systems (e.g.; the Budget Code)]. Taken together these structures define the organisational structures that give shape to the evolving balance between *centralised* and *decentralised* decision-making for public services – including social services - in Ukraine. Diagram 3.1 below provides an illustration of the interface between these dimensions:

Diagram 3.1: Interface between Representative Power, Executive Power, Specific Laws, and PEM.



Source: Authors

The emphasis given to strategic planning within the EU stems from disillusionment with traditional “enclave approaches” to reform – where policies that affect one administrative unit or Ministry are not co-ordinated with another relevant Ministry that has

responsibilities in the same area of policy. The “enclave approach” has frequently failed to bring even short-term benefits, while consistently undermining long-term institutional development. So long as the impact of policies is ‘fungible’ [i.e. the effects of given policies disperse beyond specific administrative units], there is little point in focusing only on the *vertical* aspects of reform, while the wider – *horizontal* - environment for strategic policy development and opportunities for innovation in social service delivery remain weak.

As a rule the best strategic planning practices in government and the public sector more generally are:

- Clear about goals and relative priorities;
- Underpinned by a rich understanding of causes, trends, opportunities, threats and possible futures – such as demographic projections²;
- Based on a realistic understanding of the effectiveness of different policy tools and the capabilities of institutions (strategies that work well on paper but not in practice are of little use);
- Creative – with a focus on designing and discovering new possibilities - such as options for strengthening the involvement of new service providers³; and
- Developed in partnership with, and communicated effectively to, all those with a stake in the strategy or involved in its implementation.

Strategies can vary a great deal in their scope and scale. Some are very precisely defined and imposed top-down through organisational hierarchies. Others are wide ranging and emerge in a more evolutionary and co-operative way from discussions, experiments and learning through bottom-up processes. In either case, strategy is best conceived as an end-to-end process from the definition of goals to implementation. In a democracy the end purpose of strategic plans is to create *public value* – i.e. services and outcomes that are both cost effective and valued by the public. Policies cannot exist in isolation, and need to be developed within the framework of a longer-term strategy, and need to take account of the practicalities of implementation. All strategies need to be adaptable, with quick feedback and effective information flows to take account of changing circumstances [such as economic growth] or unexpected events [such as price rises in key commodities].

Strategic Planning in the Government of Ukraine

Responsibilities for strategic planning are distributed across the institutional structures depicted in diagram 3.1 above. This section focuses on the formalised aspects of strategic decision-making within these structures which have a significant bearing on the management and reform of social services. The first part focuses on central government

² See: FRSSU Project Report: *Demography, Social Statistics and Financial Trends: Analysing and Scoping the Future Demand and Need for Social Services* (2006a)

³ See: FRSSU Project Report: *The Interface Between Legislation on Non-Government Organisations, Taxation and the Delivery of Social Services* (2006b)

decision-making; the second part focuses on decision-making within local tiers of government.

Central Government Decision-Making:

A number of branches of the Ukrainian Government have responsibilities for what might be described as the ‘spine’ for setting and promoting strategic priorities. The key strategic decision-making structures for central government are outlined in the table below:

Table 3.1: Strategic Policy Structures of Central Government:

Strategic ‘Spine’ of Central Government					
Title of Decision-Making Document	Contextual Sequence	Duration	Legislative Framework	Institutional Framework	
				Who is Involved	Institutional Procedures
Address of the President to Parliament	After assuming office the President is required by the Constitution to give an address to the Verkhovna Rada covering the goals, aims and activities of the Presidential term	Can establish strategic goals for any term – but given on an annual basis	Articles 85, 106 of the Constitution	Administration of the President, Council of Ministers, Central Executive Bodies (i.e.; line Ministries), and Working Groups	There is no coherent structure for the regularisation of Presidential proclamations
Government Action Programme (GAP)	The Government produces the action plan on how it intends to implement the President’s strategy	Maximum 5 year term – i.e. for the term of authority vested in the Council of Ministers	Articles 85, 114 of the Constitution	Secretariat of the Council of Ministers plays a key role in drafting	Verkhovna Rada Approves
State Programme of Economic and Social Development	Plan is produced on annual basis for the whole government - with adaptations to local tiers of government	Annual	Law on State forecasting and development of programmes for economic and social development	Ministry of Economy (MoE) with inputs from line Ministries and other central executive bodies	Council of Ministers Resolution #621 of 21.06.2001

Source: Authors

The GAP plays a critical role in setting the government’s agenda. However it is more akin to a statement of intent rather than an action plan that sets out concrete measures for the achievement of particular goals. Indeed, the level of abstraction is reflected in the ambition articulated in *Towards the People* to: “...increase the quality of social services

in order to approach the European level and to enlarge the circle of those who render such services...” and to give “*priority...to socially unprotected elderly people, not sufficiently provided families, invalids and families with children*”. Although the statement signifies a high level of intent, it does not say what the Government will actually do to achieve these policy aims, and there is an absence of measurable targets that would enable qualitative judgements or quantitative measures that would help determine the extent to which the intent has been achieved. More importantly the GAP is not assessed for cost, or linked to an assessment of available resources. This means that there is significant level of disconnect between the GAP’s statement of intent towards the reform of social services, and the PEM system that guides their delivery; and between the statement of intent and the reality of the electorate’s [i.e.; citizens] everyday experience of social services.

The Ministry of Economy [MoE] plays a key role in setting and promoting strategic planning in government – although under a Cabinet Resolution⁴ passed in 2002, each line Ministry is required to establish a strategic planning unit. However, when the resolution was passed no additional resources were allocated and no specific guidance on the role and functions of these units was given. Subsequently, most Ministries absorbed the functions – specified in the resolution – into existing units⁵. In addition, the President’s office has small team of cross-cutting advisers and consultants among whom a small number focus on social policy.

Overall the capacity for strategic planning and policy analysis in government tends to be weak, with many strategic tasks ‘farmed-out’ to third parties. Thus the civil service has tended to adopt a passive role in relation to policy analysis and strategic planning⁶, and demonstrates tendencies towards:

- Focusing on the implementation of policies decided by Ministers rather than proactively developing an area of policy and making recommendations to Ministers on what the strategic goals should be and how to achieve them;
- Avoidance of discussion on policy options and jumping straight into drafting primary legislation and subsequently regulations, rather than setting out policy

⁴ Cabinet Resolution No 1550 of 15 October 2002: on Regulating the Structure of Central Executive Bodies.

⁵ In the MoLSP the functions were absorbed into the Social Development Strategy Department – whose key focus is on the development and elaboration of normative standards. However, it should be pointed out that the MoLSP was one of the first Central Executive Bodies to produce a strategic document covering the period 2001-2004. This document is accompanied with an annual plan that sets out a number of priority issues, but the desired outcomes are not always expressed in concrete form and it is difficult to qualitatively determine or quantitatively measure whether the priorities have been achieved. There is also a Strategic Planning Unit in the Secretariat of the Council of Ministers (CoM), but this unit has a large number of functions of which one is strategic planning, but the main part its core focus is on macroeconomic issues.

⁶ This observation is based on discussions with officials across different tiers of government.

options for analysis⁷. This practice means that in many instances there is little opportunity for ensuring that the best policy response to a particular issue is identified and pursued⁸.

- Duplicating efforts through processes whereby different Ministries are working on similar pieces of policy/legislation at the same time. Thus areas of common interest to the achievement of government objectives are seldom adequately co-ordinated, and legislation tends to be messy, inconsistent and of poor quality.
- Not engaging in impact assessment and evaluation of policy or the effects of legislation. This practice results in the unintended effects of legislation not being collated; the financial costs not being adequately assessed, and the costs and benefits between policy options not being quantified⁹.

The tendencies outlined above, and their consequences for setting and promoting strategic priorities in social services, mean that there is a profound lack of integration between policy development and service delivery systems, demographic trends and the determination of need, and budgetary systems. Indeed, many policy developments are not adequately evaluated for cost implications before they are approved, and systems for evaluating the financial consequences of options – for the State Budget and the Consolidated Budget – are under-developed; and systems for selecting between individual proposals for implementation, based on a strategic overview of priorities in a given area of policy have not been developed¹⁰. The gaps between policy development

⁷ In 2003 an effort was made to encourage Ministries to focus on policy development rather than legislation – this was channelled through Cabinet Decree No 327 of 11 June 2003 which issued to Ministries a template to be followed in the production of policy discussion papers [described as ‘concepts’] for Cabinet. This process was subsequently extended to all state targeted programmes

⁸ In principle law drafting has two stages – policy development and the preparation of legislative text to give effect to the policy adopted. During the *first stage* key decisions need to be taken on matters such as: which of the possible policy options is to be preferred; determining whether the option chosen can be pursued/achieved through legislative or non-legislative means; determining which authorities should put the legislation into effect; determining the basic approach to be adopted to put the selected approach into effect. All these tasks have to be undertaken prior to the *second stage* which involves converting the policy options into legal texts.

⁹ Article 27 of the Budget Code established procedures for managing the passage of laws and potential expenditure implications for budgets of any level. The procedure specifies that the Budget Committee of the Verkhovna Rada should look at each draft [produced by line Ministries] for potential budget implications, and that the law should be sent to MoF for their estimation of the implications, their recommendations on approval, and the expected time frame during which the implications should be considered. Once these estimates have been assessed the procedure dictates that such laws need to be approved by the Verkhovna Rada prior to 15 August in the year prior to budget year during which the law will come into effect. In practice, however, these procedures are more often than not breached in violation of the Budget Code.

¹⁰ This position arises because the Budget Code requires the MoF to fund all adopted programmes. Thus the Verkhovna Rada, which has the right of legislative initiative, is able to adopt programmes without regard to budgetary implications. It may, of course, be appealing to members of the Verkhovna Rada to adopt programmes and laws which looks beneficial to constituents, but is of little practical value if the programmes and laws cannot be funded. Moreover, it is damaging to the credibility of government if the MoF is required to fund all adopted programmes, or local tiers of government are expected to absorb

and the budget system generate and reinforce conditions that foster under-funding and un-funded mandates across different tiers of government. Taken together these tendencies result in citizens losing trust and confidence in a government's ability to deliver on the intentions set forth in the GAP.

Discussions with officials suggest that there are several root causes for these practices:

- The absence of systems – at the GAP, Ministry, and Budgetary Institution levels¹¹ - through which policy developments, actual and planned, can be brought together, evaluated and matched with the financial resources available.
- Requirements to cost policy proposals are either not carried out at all or carried out in a superficial manner.
- Budgetary institutions are largely left to define for themselves the structure and classification of programmes. This practice results in government programmes being constituted into a confusing mix of big and small, and strategic and tactical; and a lack of definition given to required inputs and expected outputs.
- The absence of procedures for ensuring that appropriate 3-year estimates for financial requirements in the context of developing budget proposals by Budgetary Institutions, for using second year estimates as the starting point for the following year's budget.
- National level innovations have largely been developed by top-down measures that have not drawn on the experience of bottom-up initiatives, learning from experience that would assist in determining what would, or could, work in practice.

functions – such as those specified in the Law on Social Services – without economic appraisal of their ability to generate or allocate revenues to fund new initiatives.

¹¹ The term *Budgetary Institutions* refers to all institutions which are created by government [at any level] and which are fully financed by public funds (from the budget of any level). The title 'Budgetary Institutions' confers the responsibility of *budget manager* [the term used in the Budget Code is 'spending units']. Institutions that are conferred with the responsibility of *budget manager* are linked via a hierarchical network of 'key budget managers' 'higher' [i.e.; Ministries]; and 'lower' [i.e.; Oblast and sub-Oblast levels] depending on their position within the tier of government. All other institutions – not conferred with the title of *budget manager* - are classified as '*budget recipients*'. Thus a residential institution is classified as a *budget manager*, while an NGO – in receipt of public funds – is classed as a *budget recipient*. For practical purposes, however, the classification of *budget manager* and *budget recipient* is somewhat blurred by the position of the institution in question within the administrative hierarchy – with 'higher' level institutions having greater bargaining power in budget negotiations, and 'lower' level institutions being subordinate to the 'higher' level. The legislative framework – based on a network of resolutions passed by the CoM, Annual Budget Laws, and the Treasury - that defines the principles of classification is both weak and confusing. Although the Treasury approved a special resolution in 2004 (No 89) – which prohibits any institution from being classed as both 'manager' and 'recipient' and requires that each budget manager compile a list and specify the status of all institutions financed or co-ordinated through a particular budget line - in practice all Ministries are classified as 1st level *budget managers*, while the roles and responsibilities of 'lower' levels comprised of Oblast (2nd level) and sub-Oblast levels (3rd level) are less well defined. This arrangement results in a significant amount of informal negotiation over the scope of control afforded to *budget managers*.

The operational difficulties that stem from these practices – particularly for the reform of social services - can be characterised in the following manner:

- It is difficult to determine the ‘level’ of budget management ascribed to various residential institutions across different line Ministries;
- It is difficult to determine how frequently the budgetary classification for residential institutions is changed;
- It is difficult - in the absence of a coherent policy towards social services across the different tiers of government – to determine what ‘levers’ can be drawn-upon to negotiate the necessary changes required to reduce the dominant use of residential care, and establish the institutional and budgetary framework that enables and ensures that the shifts required – as defined in GAP and the Law on Social Services – can be effected.
- It is difficult to determine how the *transaction costs*¹² for setting and prioritising the existing management, and future reform, of social services can be undertaken in a decision-making and budgetary system that is fragments roles responsibilities at the central level [i.e., across line Ministries] and distributes functions at local the local levels of government [i.e., across Oblast and sub-Oblast levels] without due regard to the achievement of efficient outcomes.
- It is difficult to determine the level of realism that can be ascribed to new policies and programmes – such those specified in the GAP on social services – without the calculation of financial implications. Policies that cannot be evaluated for costs cannot be implemented; and to be funded policies must first be evaluated for costs.

The Ministry of Labour and Social Policy: PEM and Social Services

The Ministry of Labour and Social Policy [MoLSP] is but one of the line Ministries with legislative and administrative responsibility for social services [residential and community based-based]. The direct activities and the key expenditures – assigned from the State Budget - of the MoLSP can be broadly divided into three main areas:

- Cash and in-kind benefits – which account for around 93 per cent of the budget;
- Residential Institutions and NGO funding – which accounts for around 1 per cent of the budget; and
- Research and regulatory development – which accounts for around 6 per cent of the budget.

¹² *Transaction costs* are defined [Yeager, 1999] as the costs of negotiating, measuring and enforcing exchanges. The process of negotiating involves determining who is it that one has to deal with, informing people that one wishes to deal with and on what terms, conducting negotiations which lead up to an understanding, and drawing up a framework, or establishing a contract, for action. Measurement costs involve measuring all the attributes of a service. The root source of measurement costs is poor information – e.g. how does one know whether a residential institution is providing good care to elderly people or children? *Transaction costs* include the costs of enforcing exchanges i.e. honouring commitments that are agreed. The role of institutions – i.e.; the extent to which rules and roles that guide behaviour is understood – is, therefore, of critical importance to the reform of social services.

Table 3.2 below provides an overview of expenditure by function for the 2005 budget:

Table 3.2 MoLSP Expenditures 2005

MoLSP Expenditures	2005 Plan in UAH	% of Total Expenditures
Consolidated Benefit payments (cash and in-kind social guarantees)	2,191,950,000	92.6
Direct Financial Support to two institutions ¹³ and to national level NGOs ¹⁴	22,628,000	0.95
Research and Regulatory Development ¹⁵	143,427,000	6.09
Total	2,358,005,000	100

Source: MoLSP

Set against the data outlined above, Table 3.3 below provides an overview of non-benefit related budget trends in the MoLSP set against the total state budget:

Table 3.3: Trends in MOLSP Non-Benefit Expenditures

Expenditure Items	2002 (UAH)	2003 (UAH)	2004 (UAH)	2005 (UAH)
Two Residential Institutions	3,769,900	4,536,700	5,890,4000	5,360,500
NGOs for disabled	10,586,300	12,887,000	14,743,800	14,798,000
NGOs for Veterans	988,500	2,208,900	2,455,300	2,469,100
Total MoLSP Budget	2,484,246,200	1,932,233,100	2,187,562,500	2,358,005,100
Total State Budget	44,348,215,100	56,120,028,000	79,471,508,700	114,080,879,800

Source: MoLSP

¹³ The two residential institutions in question are classified as being of 'national significance' and fall under Article 87 of the Budget Code. They are situated in Kam'yanets-Podilsky [in Khmelnytsky Oblast] and in Kharkiv City. The combined budget for these two institutions in 2005 is 4,991,000 UAH which is 0.2 per cent of the MoLSP budget.

¹⁴ The total budget for NGOs – which are mainly focused on disabilities and war veterans - amounts to around 17,267,100 in 2005 which is 0.8 per cent of the MoLSP budget. Among the largest disability NGO budget recipients are the Ukrainian Society for the Blind [which absorbs 61 per cent of the total disability NGO budget]; The Ukrainian Society for the Deaf [26 per cent of the NGO budget], the Union of Ukrainian Organisations of the Disabled [which absorbs 9 per cent of the budget]. Together these NGOs are allocated 14,743,800 in 2005. Among the war veteran NGOs [mainly catering for veterans of World War 11 and the Afghanistan War] their total allocation amounts to 2,469,000 of which the Ukrainian Association of Veterans of the War in Afghanistan absorbs 69 per cent of the total amount awarded to veteran oriented NGOs. Expenditures on veteran NGOs, unlike those of the disabled, are managed through the State Committee on Veterans – which acts as a 2nd level budget manager [see footnote 11].

¹⁵ Research and regulatory functions refer to the development, implementation, control and compliance functions associated with standards and rules in social services provision.

Regulatory Responsibilities of the MoLSP in Social Services:

The regulatory responsibilities of the MoLSP transcend the institutions that fall under its immediate budget mandate and incorporate the spending units of other key *budget managers*. This means that institutions whose functions are *delegated* – such as territorial centres which provide community services to the elderly, and residential institutions for the elderly and disabled – and fall under the budgets [comprised of delegated and equalisation transfers] of subordinate tiers of government [e.g.; oblasts, cities, and rayons] have to comply with regulations and normative standards that are developed and promulgated by the MoLSP¹⁶. MoLSP, and other line Ministries, do not have powers to intervene on budget negotiations on residential institutions that have been *delegated* to local tiers of government; however, they do have the authority to develop and to check compliance with regulations and normative standards as specified by the *Law on State Social Standards* and the *State Classifier of Social Standards and Norms*¹⁷.

Many of the normative standards and regulations are created without any reference or consideration to the budget implications – thus reinforcing the generation of under-funded or un-funded mandates. In discussions with officials at various tiers of government the general view was that the normative standards and regulations – which can span from specifications on the number of staff to be employed through to the living conditions in residential institutions - developed by the MoLSP were expensive, ambitious in comparison to the policy environment, and imposed in a top-down fashion without adequate or prior consultation.

Although Article 27 of the Budget Code established the procedure for assessing the potential expenditure implications budgets at any level of government [see footnote 9], discussions revealed that in practice the CoM almost always approves all pieces of legislation produced by the MoLSP. However, it is also understood that MinFin takes a sceptical view towards the normative standards that are issued by the MoLSP to accompany legislation.

In the context of the seeking approval for the Law on Social Services Article 27 of the Budget Code was observed in the breach given that the MoLSP submission contained no estimates of the budget implications. Discussions in the MoLSP indicated that no estimates were made because MoF did “*not demand the preparation of cost estimates*”. Moreover, the Explanatory Note¹⁸ that accompanied the draft bill for the Law on Social Services justified the lack of cost estimates on the basis that:

“Local government institutions must provide local budget funding for social services”

¹⁶ Similar procedures apply to residential institutions that fall under the legislative and administrative purview of the Ministry of Health [MoH], the Ministry of Education and Science [MoES].

¹⁷ See Chapter 2 for comments on the relevance and efficacy of these Laws in the context of the Budget Code.

¹⁸ Explanatory Note On the Law of Ukraine “On Social Services” draft bill (undated)

The implication from this statement is that because the policy goals and tasks specified in the Law on Social Services were largely expected to fall under to Article 91 of the Budget Code¹⁹ there were no budgetary implications because the funding would not be allocated from either the State Budget or the Consolidated Local Budget.

In response to the generation of under-funded or un-funded mandates from line Ministries discussions revealed that the local tiers of government tend not to comply with legislation. Indeed, many discussants described the standards that accompany legislation as “irresponsible”. At the same time, MoF takes no account of standards promulgated by the MoLSP during the process of formulating and/or adjusting equalisation transfers²⁰.

Strategic Planning for Social Services in the MoLSP:

The MoLSP wears a number of hats in the context of engaging with strategic planning and social services – the first concerns the fact that it not only performs the role of *budget manager*, but also has operational responsibilities for two residential institutions; secondly, it is supposed to perform the role of setting strategic objectives for all residential services across the country [including strategies for other line Ministries that administer social services, and local tiers of government]. In accordance with Article 22 of the Budget Code every *budget manager* is expected to produce an Activity Plan – which should act as a guide to budget preparations. The MoLSP has an Activity Plan. However, in reality the Activity Plan bears little or no relationship to the budget – for example, it is normally produced much later in the budget preparation process, it spans 6 month periods; and its association with budgetary figures and with activities that are delegated to local tiers of government is tenuous at best.

Overall the Activity Plan is comprised of a patchwork of activities drawn from a range of sources some of which can be described as strategic²¹, some as operational²², others as tactical²³ in nature, and some are vague²⁴. The Activity Plans are inconsistent, often

¹⁹ The rationale for ascribing the policies and tasks specified in the Law on Social Services to Article 91 of the Budget Code are not at all clear. Indeed, ascribing community-based social service to Article 91 [thereby excluding these services from equalisation transfers] while ascribing residential social services to Article 90 [thereby including them in equalisation transfers] not only creates disincentives for the reform of social services and but also undermines efforts to diversify provision in a manner that reduces the dominance of institutional provision. It also undermines the government’s statements in the GAP towards social services.

²⁰ The authors understand that the Budget Committee of the Verkhovna Rada is undertaking work on the estimation of the costs of the standards imposed by legislation in various fields – including social services. It would therefore be advisable that this report – in its entirety – is brought to the attention of the Budget Committee.

²¹ For example, the National Social and Economic Strategy

²² For example, tasks associated with ministerial collegiums, participating in seminars and conferences, and public relations

²³ For example: checking the capacity of residential institutions in Crimea, Rivnenska and Khersonska Oblasts to function during the winter; and analysing implementation of the Law on Social Services by

poorly detailed and poorly related to strategic outputs that are aimed for. A process of consolidating the Activity Plan – linked to the development of Transition Action Plans [TAP], and the Medium Term Budgetary Frameworks [MTBF] - would help improve the value of policy analysis and programme development by the MoLSP – and enable the plan to become a platform for strategic deployment of resources and prioritisation in key areas delineated in the GAP - such as social services.

The Budget Process and Budget Control:

Most budget processes have six generic iterative stages comprised of policy review, strategic planning, budget preparation, budget execution, accounting and monitoring of expenditures and revenues, and reporting and audit²⁵. Budget preparation typically begins before reporting on the previous year is complete, ministries – as a rule – base their proposals on previous budgets rather than actual results; and as indicated above they do not have powers to intervene on budget negotiations for institutions and functions that have been *delegated*. This can lead to errors in expenditure planning being amplified over time. The amplification of errors increases in the absence of a coherent framework for setting and promoting strategic priorities for policy development across different tiers government. Indeed, the quality of budget execution gives meaning to the process of budget preparation and the strength of auditing and control lends rigour to the process of execution. Weaknesses within the iterative stages can severely undermine the system as a whole.

Budget preparations are prepared in accordance with guidelines laid down in the Budget Code, although these are supplemented by a separate CoM directive²⁶ which lay down the procedures for setting budget ceilings and actual negotiations with MoF over budget requests. However, under these procedures Ministries communicate only with budget managers that fall within their specific networks. This means that the MoLSP only communicates with institutions [residential and community-based] that fall within its formal legislative and administrative remits, while other line Ministries [such as MoES, MoH and MoFYS] only communicate with *budget managers* within their network. Thus the budget preparation process – including for social services - is horizontally and vertically fragmented with few opportunities for setting and promoting coherent strategic priorities.

territorial centres for the provision of social services to pensioners and the disabled in Kharkivska and Chernigivska Oblasts.

²⁴ For example, improve the forms and methods for social service provision to the population and employers; check the readiness of the ancillary farms of residential institutions in Dnipropetrovska and Odessa Oblasts for the sowing campaign and strengthening their material base.

²⁵ DFID (2001)

²⁶ *Developing, Considering, and Approval of key Requirements for the Execution of Budgets of Budget Institutions*, CoM Resolution No 228 of February 2002.

The expenditure side of the state budget is executed by the Treasury and involves a *budget manager* forwarding bills of payment for goods/services received to the treasury for payment. However, in terms of efficiency in budget execution discussants observed that expenditures are spread very unevenly with around 20-30 per cent of budgets usually spent in the final month [December] of the budget year – and often involves the transfer of unspent money across different budget lines²⁷.

The Budget Code dictates that control and monitoring is undertaken at every stage of the budget ‘cycle’, and requires that controlling and monitoring agencies specifically evaluate the efficiency of budget expenditures. Indeed, attention to spending efficiency was one of the novelties introduced by the Budget Code. However, apart from the general provisions in the Budget Code²⁸ there are no procedures or legislative guidelines to regulate responsibilities over efficiency in budget execution. Despite this systemic weakness, each ministry [including the MoLSP] has a separate division that performs financial inspections [although this function can be combined with professional/technical inspections, such as those carried out by the Department for the Elderly and Disabled].

In addition to internal financial control and monitoring, the Control and Inspection Department [CID] and the Accounting Chamber [which is a medium for parliamentary control over budgets] are charged with the responsibility of evaluating the efficiency of budget expenditures at central and local tiers of government – including *delegated* functions such as social services²⁹. However, the roles and responsibilities of the Accounting Chamber - which acts as a Supreme Audit institution - does not cover inspections of local revenue generation. Indeed, regional accounting chambers were established about two years ago, but not all Oblasts have established these and the skill mix is not necessarily suited to assessing the specialised mandates of particular *budget managers* or line ministries³⁰. The criteria for assessing efficiency used by the CID is rather narrow – with a focus on assessing the extent to which accounts are not settled within 30 days, expenditure tracking with regard to payments and the refund of monies

²⁷ It should be noted that according to the Budget Code if by the end of any quarter the amount of funds allocated to a *budget manager* [e.g.; line Ministry] is under-spent by 15 per cent or more MoF can decrease the budget ceiling allocated to that particular budget line. However, within this system, cuts in expenditure cannot be made to *protected expenditure articles* – which are listed in the annual Budget Law. The fact that between 20-30 per cent of budgets are spent in December would suggest that this rule is observed in the breach.

²⁸ According to the Budget Code, internal control over public spending is the responsibility of *budget managers*. Each *budget manager* is supposed to control its own spending and the spending of all ‘lower’ level *budget managers* which belong to its network [see footnote 9]. For the MoLSP this means that responsibility to control and evaluate the efficiency of executing budgets of all subordinated institutions. However, central line Ministries can also inspect institutions which are not financially subordinated. This is an informal administrative, rather than a legislatively mandated, practice.

²⁹ See: DFID FRSSU Report: *Auditing for Improved Performance in Social Services Quality and Outcomes* (2006d),

³⁰ IMF (2004)

for goods/services not delivered; and tracking the transfer of monies between budget lines – but even in these areas its evaluations and recommendations seldom have consequence.

NGO Funding

It is clear from Table 3.3 above that while MoLSP funding to NGOs is only a small proportion of the overall budget, such funding does constitute a significant part of non-benefit related expenditure. It is also clear that disability and war veteran issues dominate spending in this sub-field of expenditure. The selection of funding to NGOs is largely path dependent and supply driven – a fact reflected by discussants who indicated that the MoLSP: “gives priority to older NGOs that have traditionally worked with the Ministry” and “younger NGOs are practically kept to the end of the waiting list and are financed from residuals, if there are any, after the others have been financed”. The process of selecting NGOs for funding is managed through the finance department of the MoLSP which receives annual applications from NGOs, but the final decisions on funding is undertaken by the Minister and/or Deputy Ministers³¹.

Budget allocations to NGOs are submitted to MoF as a ‘consolidated’ budget request. MoF, in turn, negotiates the overall size of the request based on the experience that NGO’s “submit unreasonably overestimated budgets”. Once NGOs are selected for funding, the MoLSP enters into separate negotiations with each NGO on the content of the budget and ascribes them with the status of *budget recipient*. However, in addition to any budget settlement negotiated through this process, NGO’s that are *budget recipients* can make separate applications for additional funds to cover the costs of specific events. Events costing less than 30,000 UAH can be approved with reverting to a tender under public procurement rules; while events above this threshold have to be procured through a public tender³². Discussants observed that “most NGOs are financed by tradition with little consideration given to the substance of their proposals”. Indeed, the lack of attention to the substance of NGO proposals is reinforced by the fact that “no one in the MoLSP is charged with responsibility for evaluating the efficiency or effectiveness of NGOs”. The lack of evaluation or audit control on public funds allocated to NGOs has become a vicious circle because “we cannot stop financing them because there are no reasons for such a decision, and the reasons for evaluating them are absent because there is nobody to evaluate them”.

The general view of discussants towards the traditional pattern of funding of NGOs was that “it was a complete waste of money” and that “the effectiveness of these NGOs that we fund is literally zero”. It is clear from the above that current practices that prevail towards the funding of NGOs are neither efficient nor effective; neither is it clear how the pattern adds quantitative, or qualitative, value to the objectives towards social services as

³¹ There are no specific procedures or criteria for evaluating annual budget requests submitted by these NGOs – the exception being requests for small scale events that fall outside the scope of the annual budget negotiations

³² However, if the NGO that submits the application for an event in excess of the 30k UAH threshold is deemed to have “exclusive copyright” on the event in question public procurement rules are waived

specified in the GAP. It should be noted that NGOs deemed eligible for funding from the State budget are specified in legislation³³ essentially ones that are a carry-over from have to meet special criteria.

The Framework for Fiscal Decentralisation, Administrative and Budgetary Systems: The Case of Social Services

Administrative and fiscal decentralisation is clearly a central tenet of both the Budget Code and the Law on Local Self Government. Decentralisation can be defined as the “*transfer of authority, or dispersal of power, in public planning, management and decision making from the national level to the sub-national levels or, more generally, from higher to lower levels of government*”³⁴, and is seen as an effective means: to stimulate improvements in service delivery, to secure better allocation of resources according to needs, to involve communities in decisions about priorities, and to facilitate the reduction in inequalities. At the heart of fiscal decentralisation are the goals of setting and promoting priorities for social welfare which are comprised of economic stability, allocative efficiency and distributive equity. However, the precise combination and importance attached to each of these goals will depend on the context, but the challenge of decentralisation is essentially to locate resources at the level of government that optimises social welfare, and determining which tiered-level of government exerts the greatest influence over fiscal outcomes such as stabilisation, allocation and distribution.

Administrative and fiscal decentralisation is not of a single type and can be been classified, as break-points along a continuum, into three dimensions³⁵:

- *De-concentration* - which involves policy decision-making being transferred to a lower administrative level
- *Delegation* – where policy decision-making responsibilities are transferred to local governments who are not controlled by central government but remain accountable to it;
- *Devolution* [also known as political decentralisation] where decision-making is transferred to a lower political level and allows quasi-autonomous units of government to exercise power and control over the policy responsibilities that have been transferred.

³³ These NGOs essentially focus on disability, and are subject to special treatment within the framework of the *Law on the Foundation of Social Protection of Disabled People in Ukraine*, No 875-X11, March 3 1991. For a full analytical assessment of the legislative distinctions between different types of NGOs in Ukraine, and the implications for the delivery of social services within the framework of the LSS See DFID FRSSU Project Report: *The Interface Between Legislation on Non-Government Organisations, Taxation and the Delivery of Social Services* (2006b).

³⁴ Rondinelli, D.; (1981) (1983)

³⁵ Borgenhammer (1993), Rondinelli (1990)

De-concentration involves the least amount of autonomy, delegation slightly more and devolution the most. However, a fourth dimension - *Privatisation* - can also be added to this list of dimensions for the reasons specified below. Conceptually, privatisation is different from decentralisation because it involves the transfer of authority and functions from the public to the private sector, rather than a shift between various forms of organisation and distribution of responsibilities within a single public [i.e.; government] system. Nevertheless privatisation is included here because the two different processes will - within the framework of the Law on Social Services - become inter-related because public bodies will be able to formally contract not-for-profit Non-Governmental Organisations [NGOs]³⁶ to provide social services. In the Ukrainian context, decentralisation of the public sector is the fiscal counterpart of privatisation of the State-owned economy – though as the latter expands in scope it will merge with the former. Just as privatisation is intended to force enterprises to be responsive to the needs of consumers, decentralisation is designed to encourage the public sector into being more sensitive to demands of the electorate [i.e.; voter-citizens who are also ‘users’ of social services]. Although the rewards of decentralisation are frequently taken for granted, it is always useful to have the merits and risks of decentralisation firmly in sight in looking at alternative ways of achieving particular outcomes. Table 3.4 below provides an overview of the relationship between the benefits and risks associated with different dimensions of decentralisation:

Table 3.4: Benefits and Risks of Decentralisation

Type of Decentralisation	Benefits	Risks
De-concentration	Reduced need for central administrative bodies and local innovations implemented	Unacceptable variations in practice, and increased fragmentation
Devolution	More local decision-making and opportunities for more people to gain influence, and less centralised power	Lack of political control at the centre
Delegation	Faster implementation of decisions	Less influence of professional values, and difficulty in maintaining quality and efficiency if decentralised units are too fragmented and lack technical and fiscal capacities
Privatisation	Independence of activities from politicians, who are less inclined to take account of efficient outcomes	Emergence of market failures as private monopolies emerge that exploit and take advantage of their position in the market; or weak providers emerge that are unable to meet service level requirements

Source: Authors

In contrast to centralisation – which lowers competition among different administrative units [e.g.; Oblasts, cities and rayons] and can inhibit innovation - decentralisation is attractive because it is difficult for central administrative bodies to be close enough to the

³⁶ See Law on Social Services - Section 3, Article 7, and Section 3, Clause 13, and DFID FRSSU Report: *The Interface Between Legislation on Non-Government Organisations, Taxation and the Delivery of Social Services* [2006b]

users of services to make appropriate and sensitive responses to presenting needs in different localities. In almost every transition country, the same drawbacks of centralised systems – inherited from the Soviet period – have been identified: poor efficiency, slow pace of change and innovation, and a lack of responsiveness to changes in the demographic and policy environments that affect the way social services function. Thus decentralisation is seen as an important political ideal, providing the means for community participation and local self-reliance, and improving the accountability of local officials. However, decentralisation can also lead to patterns of institutional behaviour which transfer responsibility for development and reform from the centre to the periphery, and consequently used as a way of spreading the blame and responsibility for any failure to meet local needs. In addition, decentralisation can disconnect local welfare from national welfare in ways that encourage lower tiers of government to shirk difficult tasks and push these tasks to their neighbouring units or to the national level. The presence of such problems more often than not undercut any advantages from the impact of decentralisation on administrative efficiency and accountability³⁷. In fact decentralisation may simply increase the number of government units attempting to extract wealth. Rather than competing by cutting taxes, they may compete to collect them, leading to an overall increase in taxation with no connected improvement in taxes.

For decentralisation to succeed specific features need to be present in the institutional environment on including policy steps for expenditure, revenues and regulation – each step can be pro-poor or anti-poor. In general policy steps that offer services used by the poor or socially excluded, redistribute wealth, or improve the treatment of the poor within society are pro-poor. Social services expenditures – and expenditures on other areas of social policy - are a particularly good measure of pro-poor policy effort as they can incite vehement distributive conflicts and require an active effort on the part of government to transfer resources. The total social policy effort towards social services is then determined by the sum of spending at all levels of government divided by the total amount of resources spent.

Resource transfer is, however, only one dimension for determining the success of measures for decentralisation. Borgenhammer³⁸ has identified the following requirements: sufficient local administrative and managerial capacity; ideological certainty in implementation of tasks; and readiness to accept several interpretations of a particular problem. Organisations that decentralise authority, and eventually contract-out some of their functions, also find that they have to articulate their missions, create internal cultures around their core values and measure results. In theory, decentralised organisational structures have a number of advantages³⁹ over centralised ones; they can:

³⁷ Bird and Vaillancourt (1998)

³⁸ op. cit. Borgenhammer (1993)

³⁹ Osborne, D.; and Gaebler, T.; (1993)

- Be more flexible, and can respond more rapidly to changing circumstances and needs;
- Be more effective, as front-line workers are better able to identify problems and opportunities;
- Be more innovative in the types of solutions they adopt; and
- Generate higher morale, more commitment and greater productivity.

However, the decentralisation of social services – and the eventual involvement of other agencies, such as NGOs - can have negative effects, including the further fragmentation of services, weakening central social services departments, generating and reinforcing inequalities, enhancing political manipulation in favour of particular interests or stakeholders, and a weakening of the status and position of agencies that manage and provide social services. The experience of many EU member states⁴⁰ in recent years demonstrates that there are, in the context of containing *transaction costs* required for the co-ordination of setting and promoting priorities, certain areas where decision-making power should not be decentralised. Four such areas can be identified as:

- The basic framework for social services policy – which involves basic value choices that affect decisions on measures for reducing poverty and social exclusion;
- Strategic decisions on the development of social services finances - which shape the future of the entire structure of service provision and help direct the *Balance of Service Provision* for the efficient use of scarce resources;
- Regulations concerning commissioning and providing services – which have important implications for regulations on the manner in which services are commissioned [e.g.; through NGOs; the accreditation of service providers; and measures for achieving public value and value for money from public resources;
- Monitoring, assessment and analysis of social need and social services provision – which involves assessing whether decentralised administrative units are performing adequately – particularly under conditions of demographic and social transition.

Thus any decision to decentralise social services raises four major issues:

- The institutional arrangements and the distribution of fiscal responsibilities for social services within a decentralised structure;
- The role of strategic planning;
- The budget process and budget control to meet government objectives; and
- The development of partnerships with local non-governmental organisations.

The Budget Code clearly classifies all expenditures of local tiers of government into *own* [which are not taken into account in the calculation of equalisation transfers], and *delegated* [which are taken into account in the calculation of equalisation transfers from

⁴⁰ UK Government White Paper: Modernising Social Services (1998)

the general budget]. This means that estimated expenditure needs for delegated functions are supposed to be reflected in the calculations of the equalisation transfers and in the revenue flows to the correspondent budget. Local tiers of government then have the ‘freedom’ to allocate from their ‘own’ revenues any additional resources as supplements to the equalisation transfers. In accordance with the Budget Code [Article 90] residential institutions are *delegated* functions assigned to the Oblast level. However, some services - such as residential institutions, territorial centres, centres of social services for youth, and early rehabilitation centres – are assigned the budgets of rayons and cities of Oblast significance⁴¹. This applies where 70 per cent of users or residents of a particular service are local residents. Any service that falls beyond the bounds of these particular functions is classified under Article 91 of the Budget Code.

The implication of this particular institutional arrangement is profound given that closing or decreasing the number of residential institutions can lead to a decrease in the size of the transfer from central government, while establishing innovative community services does not attract an additional transfer and creates an additional fiscal burden on local budgets⁴². In principle the budget formula is supposed to be based on the allocation of transfers linked to objective indicators. However, in practice the social services element of the formula is [with the exception of territorial centres under the remit of MoLSP] principally applied to the number of residents in residential institutions – thus creating a perverse incentive to fill residential institutions that fall under the remit of MoLSP, MoES – see Chapters 5.2 and 5.3 for a more detailed assessment of the policy impact of the budget formula on different types of social services

In order to identify the extent to which this perverse incentive influences service delivery structures – and to identify the range of social services institutions that exist within the Oblasts, provide an overview on the number of clients, to develop insights into the structure and composition of the budget for social services⁴³, estimation of unit costs⁴⁴, and underlying trends in the provision of social services – the authors conducted secondary analysis of primary data provided by the Principal Finance Department in Khmelnytsky and Kharkiv Oblasts.

⁴¹ The Oblast administration can contribute to the budgets of these assigned functions from *special funds*.

⁴² See Chapter 2, Equalisation Transfer formula.

⁴³ Data on structural changes in the composition of budgets have not accounted for expenditure growth in real terms - which requires calculation of annual inflation and the annualised discount rate of the UAH.

⁴⁴ It should be noted that the estimation of budgets and unit costs incorporate only wages, meals, medical supplies, utility payments and capital costs for a selected range of institutions. The budget's of institutions and the unit costs of service provision are therefore only a **partial representation** given that the excludes costs such as the management of core individual departments of the Oblast administration that are responsible for administration of social services [e.g.; Labour and Social Protection, Health, Education and Science, and Family and Youth], the wages and contributions to payroll taxes of staff not involved in direct service provision, and staff training. In addition the budget analysis does not include some critical functions such as medical and social commissions that decide on the assessment and allocation of clients to institutions, juvenile offending services, youth recreation programmes etc.

Financial Trends, Service Delivery Patterns and Budgetary Systems for Social Services in Khmelnytsky Oblast:

Data in the tables below [3.5-3.9] – which uses official designations of residential and community-based agencies for social services – provide an overview of key features and trends, which have been used to draw some general observations.

Table 3.5 Residential Institutions, Number of Residents/Institutions [2002-2004]

Type of Residential Institution	Total Number of Residents by Year and (Number of Institutions)			Funding Sources
	2002	2003	2004	
Orphaned children/Children without Parental care	250 (1)	243 (1)	304 (2)	Oblast
Children's Homes	103 (1)	116 (2)	155 (2)	Oblast, Rayons and Towns
Children with Physical and Mental Health Disabilities	1842 (14)	1849 (14)	1796 (13)	Oblast, Towns of Oblast Significance
Baby Homes	n/a ⁴⁵ (1)	n/a (1)	n/a (1)	Oblast
Disabled Minors	n/a (1)	n/a (1)	n/a (1)	Oblast
Shelters for Minors	28 (1)	30 (1)	29 (1)	Oblast
Elderly and Disabled	n/a (30)	n/a (30)	n/a (30)	Oblast
Mental Health/Psychiatric	1415 (3)	1415 (3)	1415 (3)	Oblast

⁴⁵ N/A stands for data not available. This was because the primary data was collated on the number of bed days occupied rather than by the actual number – or throughput - of residents.

Table 3.6: Total Consolidated⁴⁶ Expenditures on Residential Social Services [2002-2005]

Key Variables [Types of Institution, Year, Expenditure, and (estimated Unit Costs)]					Expenditure Composition for Residential Services		
Residential Institutions	2002 UAH	2003 UAH	2004 UAH	2005 UAH	Structure of actual expenditure in 2004 expressed in % of annual total	Changes in the structure of actual expenditure 2004 vs 2003 expressed in % of annual totals	Change in the structure of expenditure in 2004 (actual) with 2005 (planned) expressed in % of annual totals
Orphaned children/Children without Parental care	1,508,800 (6,035)	2,035,000 (8,374)	3,684,300 (12,119)	5,635,400	7.8%	0.7	0.1
Children's Homes	761,400 (7,147)	1,077,500 (8,844)	1,631,700 (10,527)	2,478,200	3.5%	0.2	0.1
Children with Physical and Mental health Disabilities	8,581,900 (4,659)	11,719,800 (6,338)	12,539,700 (6,982)	17,456,000	26.8%	- 0.6	0.0
Baby Home	1,324,500 (n/a)	1,638,800 (n/a)	1,758,200 (n/a)	2,472,000	3.8%	- 0.1	0.0
Disabled Minors	661,000 (n/a)	867,200 (n/a)	949,200 (n/a)	1,042,000	2.0%	- 0.0	0.0
Shelters for Minors	217,800 (7,778)	279,800 (9,326)	404,800 (13,958)	584,600	0.9%	0.0	0.0
Elderly and Disabled	10,307,600 (n/a)	12,396,000 (n/a)	14,381,000 (n/a)	19,192,400	30.7%	0.0	0.36
Mental Health	8,516,600 (6,018)	9,771,100 (6,743)	11,386,600 (8,047)	17,840,000	26.4%	- 0.1	1.0
Total Expenditures	31,879,600	39,785,200	46,735,500	50,990,200	100.00%		

⁴⁶ The term *consolidated expenditures* refer to the combination of *General* and *Special* Funds across all institutions irrespective of their vertical *delegated* responsibilities from central line ministries; includes subventions from the state budget and equalisation transfers; and all **actual** expenditures on wages, meals, medical supplies, utility payments, and capital costs.

Table 3.7 Community-Based Service Agencies, Number of Agencies, Number of Clients/Service Users [2002-2004]

Community-Based Service Agencies	Total Number of Clients by Year and (Number of Agencies)			Funding Sources
	2002	2003	2004	
Centres of Social Services for Youth and Families	n/a (22)	n/a (25)	n/a (26)	Oblast, rayons, cities of oblast significance
Territorial Centres and Divisions of Domiciliary Assistance	16,211 (27)	31,883 (27)	40,543 (27)	Oblast, rayons and cities of oblast significance
Early Rehabilitation Centres for Disabled Children ⁴⁷	93 (6)	383 (9)	658 (15)	Rayons and cities of oblast Significance

⁴⁷ This includes the early rehabilitation centre for children at the Central Rayon Hospital in Nova—Ushytsya rayon, two rehabilitation groups at the kindergartens in Vinkivtsi and Polonne rayons, and one rehabilitation group at the territorial centre for isolated and older people in Horodok rayon

Table 3.8: Total Consolidated⁴⁸ Expenditures on Community-Based Service Agencies [2002-2005]

Key Variables [Types of Organisation, Year, Expenditure, and (estimated Unit Costs)]					Expenditure Composition for Community-Based Service Agencies		
Community-Based Service Agencies	2002 UAH	2003 UAH	2004 UAH	2005 UAH	Structure in % of actual expenditure on Community-Based Service Agencies in 2004	Changes in the structure of actual expenditure 2004 vs 2003 expressed in % of annual totals	Change in the structure of expenditure in 2004 (actual) with 2005 (planned) expressed in % of annual totals
Centres of Social Services for Youth and Families	384,600 (n/a)	668,200 (n/a)	833,900 (n/a)	1,463,000 (n/a)	9.0	2.1	1.67
Territorial Centres and Divisions of Domiciliary Assistance	3,881,800 (240)	5,508,300 (173)	7,594,000 (187)	11,242,000	82.3	- 6.6	-0.3
Early Rehabilitation Centres for Disabled Children ⁴⁹	56,300 (605)	604,700 (1579)	792,200 (1204)	1,003,000	8.6	-1.1	-1.29
Total	4,322,700	6,196,500	9,220,100	13,708,000	100.00%		

⁴⁸ The term *consolidated expenditures* refer to the combination of *General* and *Special* Funds across all institutions irrespective of their vertical *delegated* responsibilities from central line ministries; includes subventions from the state budget; and includes all **actual** expenditures on wages, meals, medical supplies, utility payments, and capital costs.

⁴⁹ This includes the early rehabilitation centre for children at the Central Rayon Hospital in Nova—Ushytsya rayon, two rehabilitation groups at the kindergartens in Vinkivtsi and Polonne rayons, and one rehabilitation group at the territorial centre for isolated and older people in Horodok rayon

Table: 3.9 Composite Expenditures for Residential and Community Based Services:

Year Service Type	2002 UAH (% of total)	2003 UAH (% of total)	2004 UAH (% of total)	2005 UAH (% of total)	Changes in the structure of actual expenditure 2004 vs 2003 expressed in % of total annual expenditure	Change in the structure of expenditure in 2004 (actual) with 2005 (planned) expressed in % of total annual expenditure
All Residential Services	31,879,600 (88.0)	39,785,200 (86.5)	46,735,500 (83.5)	50,990,200 (78.8)	-3.0	-4.7
All Community Based Service Agencies	4,322,700 (12.0)	6,196,500 (13.5)	9,220,100 (16.5)	13,708,000 (21.2)	3.0	4.7
TOTAL Expenditure on all Social Services (UAH)	36,202,300	45,981,700	55,955,600	64,698,200	Change in actual expenditures 2004 versus 2003 (%)	Change in expenditures 2004 (actual) versus 2005 (planned) (%)
					17.82	15.62
Total Oblast Budget (General and Special) and (%) of total expenditure on social services	132,695,600 (9.5)	152,073,800 (30.2)	412,370,300 (13.5)	504,857,900 (12.8)		

General Observations:

- Residential service provision – as a proportion of budget allocations – has dominated expenditures on social services between 2002-2005;
- Unit costs – albeit based on partial data costs – are significantly lower for the provision of community-based services than for residential services;
- Data recording systems are not unified with some units of data collected on the basis of the number of clients, some based on bed-occupation expressed in number of bed-days, and some data – such as clients of centres for youth and family centres – is not available. This variation in recording systems makes the calculation of unit costs, and comparisons across different services, difficult to undertake;
- The attribution of expenditures for different social services [residential and community-based] is difficult to determine given that costs are horizontally distributed across different subventions and vertical budget programmes;
- The level of overall expenditures on residential services, as a percentage of total expenditures on social services, is on a declining trend; while expenditures on community-based agencies, as a percentage of total expenditures on social services is on an upward trend;
- Expenditures on residential services for children with physical and mental disabilities, the elderly and disabled, and mental health account for the largest proportion of total expenditures on social services;
- Total expenditure on social services, as a percentage of total Oblast expenditures, appears - based on actual expenditure data for 2004, and planned expenditures for 2005 - to be settling at around 12 per cent. However, the expenditure data provides only a partial ‘picture’ given that the data does not take account of some key items of expenditure.

Strategic Planning

Khmelnytsky Oblast produces, in accordance with the Law on State Forecasting and Development of Programmes for Economic and Social Development⁵⁰, an annual programme for socio-economic and cultural development⁵¹. However the plans – which contain various budget estimates and are divided into problems, tasks and activities – have weak links with the budget. Hence budget estimates inserted into the plans at best represent ambitious benchmarks that the Oblast intends to use in negotiations MinFin. The problems, tasks and activities for 2005 are delineated in the following manner:

Problems:

- Allocating resources to maintain rehabilitation centres;
- Optimising the network of pre-school provision for children with disabilities;

⁵⁰ See Table 3.1

⁵¹ Khmelnytsky Oblast (2004) (2005)

- Improving the conditions in residential institutions for orphaned children.

Tasks:

- Broadening the remit and menu of services offered by territorial centres⁵²;
- Expanding the number of rehabilitation services;
- Improving conditions in residential services for the elderly and disabled
- Improving social work services for young people with disabilities and orphans;
- Expand the network of ‘family-type’ residential institutions, and increase the number of foster homes⁵³.

Activities:

- Expanding the network of rehabilitation centres for disabled children;
- Launching additional groups to support disabled children in kindergartens;
- Establishing a social rehabilitation centre for young children;
- Expand the number of small ‘family-type’ residential institutions and foster homes for children;
- Establish mother and children centre in Khmelnytsky;
- Establish rehabilitation centre for disabled children;
- Development of social rehabilitation ‘hostels’ for orphans;
- Establish a rayon centre for social services for youth and families in Slavuta town;
- Establish ‘youth villages’ for 225 children;
- Establish ‘social housing’ for orphans;
- Establish centre for ‘social assistance’.

The preparation of annual plans is supposed to provide a framework that will guide and inform policy, identify and tackle enduring problems, and help make investment decisions. However preparation of the plan, according to discussants, is based on a series of parallel processes whereby different tiers of government [rayon, cities etc] develop separate agenda’s that are then amalgamated into the Oblast plan. Consequently, all the plans are prepared in relative isolation of each other. The Oblast administration is expected to engage in consultations, and in ‘brokering’ the plans, to specify and delineate

⁵² Territorial Centres provide a combination of social [cash and services] and medical services within residential and home settings for elderly people and people with disabilities. The services provided are broad-ranging and include: sanitation, social, psychological, occupational therapy, funeral, leisure and recreation, home care and domestic support, referrals to hospitals, orthopaedics and prosthetics, citizens advice on dealing with utilities, advice on benefits and entitlements etc. The specific formula for funding Territorial centres has separate residential and non-residential service elements which is expressed in the following form: $V_{s3i} + (Q_{s3i1} \times H_{s31}) + (Q_{s3i2} \times H_{s32}) + V_{s3gi}$ based on CoM resolution 1203-204-n of 14 September 2004.

⁵³ In Khmelnytsky oblast it is understood that currently there is only one foster carer looking after around 5 children.

resource requirements⁵⁴. In addition to the Oblast plan, all rayons and cities of oblast significance produce annual plans.

In the absence of an overarching, and distinctive, strategic plan for the reform of social services by central government it is unclear how the position statements of the GAP towards social services, and new legislative directions are taken into account in the production of Oblast, rayon and city plans. Indeed, evidence from the discussants suggest that the ‘activities’ specified in the plans are heavily influenced by the extent to which a line Ministry in Kyiv is prepared to ‘propagate’ or ‘promote’ a particular policy. In recent times the MoFYS has been particularly active, and hence many of the social services related ‘activities’ listed in the Khmelnytsky Oblast plan can be sourced to this particular Ministry. Moreover, a comparison of the Oblast plans for 2004 and 2005 suggests that little attention is given to the review and evaluation of outcomes from the plan in one year before preparations begin on a new plan. Arguably the plans are *tactical* – given their short time horizon - rather than *strategic* in content. The omission of a strategic focus is reinforced by the absence of central government structures to guide the reform of social services, and the tentative links that the plans have with the GAP and budget preparation process.

Budget Process and Budget Control

The share of local taxes in the Oblast budget is small [estimated to be between 3-5 per cent]. The MoF therefore plays considerable role in defining the overall size of the transfers, and a profound role in defining the scope of the constraints on financial planning. In theory the size of the transfers from central government to local tiers of government should not be amended after the annual Budget Law is approved [i.e.; at the second reading]. This approach is designed to ensure that local tiers of government can approve their budgets earlier than central government. Indeed, local tiers of government do start their budget planning much earlier, but rely on MinFin indicators used in the calculation of transfers [revenues and expenditures] from the previous year. However, because MoF change – on annual basis - the weights and values accorded to the variables in the formulae used for calculating revenues and expenditures [often in a non-transparent manner] it is difficult for local tiers of government to forecast revenue availability for the year ahead⁵⁵. Within this framework draft budgets can only be prepared by local tiers of government once the revenue and expenditure transfers have been defined [i.e.; after the second reading] and once changes in protected expenditure articles – such as consumer price inflation, energy price inflation and increases in the minimum wage, food, utilities

⁵⁴ Views among discussants on the extent to which this ‘brokering role’ was effective varied. There was also a lack of clarity on how the plan – which is approved by the Oblast Rada – interfaces with the activity plans developed by Oblast level departments [e.g.; labour and social protection, health, education and science, and youth and families] who act as key *budget managers* for line Ministries in Kyiv.

⁵⁵ Moreover, MoF calculates the transfers in an isolated manner and does not consult with line Ministries – such as MoLSP, MoES, MoH, MoFYS – to determine whether adjustment need to be made on basis of government priorities and policy objectives.

and medicines⁵⁶ – and budget ceilings have been defined. However, the budget ceilings are based on past expenditure trends, thus in the context of services that are labour intensive [such as social services] and if the increase in the minimum wage levels represents a larger share of the future expenditures, it does not necessarily follow that this will be reflected in the overall budget ceiling. Indeed, in many instances changes in the value of *protected expenditure articles* for *delegated* functions are not adequately compensated for in the transfers from central government to local tiers of government⁵⁷.

Partnerships with NGOs

There are probably, compared with other Oblasts in Ukraine, a relatively large number of NGOs in Khmelnytsky Oblast. However, the range of services they provide is comparatively limited. The reason for this low level of activity can partly be attributed to the absence of strategic frameworks - at Oblast, city and rayon levels - for the inclusion of NGOs in the provision of social services; partly to the absence of transparent rules of decision-making on the award of contracts or grants, and partly to path dependency based on tradition and custom. The selection and approval processes for NGO funding are akin to those used in the MoLSP [see above] – although unlike the MoLSP, which distributes comparatively large sums of money to NGOs, local tiers of government tend to combine cash allocations [from the *general* budget] with in-kind support such as rooms in buildings or offices. However, in-kind support is not, for accounting purposes, converted into cash equivalents and therefore in-kind support does not appear in the accounts of official expenditure on supporting NGOs. In a manner similar to the MoLSP, NGOs that focus on disabled people and war veterans dominate as *budget recipients* in the Oblast budget. Thus the table below – on NGO funding trends by the Oblast administration – focuses exclusively on the cash allocations to NGOs.

Table: 3.10: NGO Funding, Year and Number

Year	2002	2003	2004	2005
Amount (UAH)	344,800	314,000	415,000	462,000
Number of NGOs funded	16	44	48	60

Source: MoF Khmelnytsky Oblast

⁵⁶ It is noteworthy that for residential social services these *protected expenditure articles* account for over **50 per cent** of all expenditures.

⁵⁷ For example, in 2005 Khmelnytsky Oblast Rada wrote to the Cabinet of Ministers drawing attention to the fact that transfers for *protected expenditure articles* were under-funded to the tune of 35,300,000 UAH [letter dated 27 April 2005 and approved by the 17th session of Khmelnytsky Oblast].

Financial Trends, Service Delivery Patterns, and Budgetary Systems for Social Services in Kharkiv Oblast:

Data in the tables below [3.11 – 3.15] provide an overview of key features and trends, which have been used to draw some key observations on social services provision in Kharkiv.

Table 3.11: Residential Institutions, Number of Residents/Institutions

Type of Residential Institution	Total Number of Residents by Year and (Number of Institutions)			Funding Sources
	2002	2003	2004	
Orphaned Children/Children without parental care	1398 (8)	1445 (8)	1267 (8)	Oblast
Children's Homes	301 (11)	318 (12)	328 (16)	Oblast, Rayons and Towns of Oblast significance
Children with Physical and Mental Health Disabilities	2240 (10)	2160 (10)	2124 (10)	Oblast, Towns of Oblast significance
Baby Homes*	143,400	142,300	143,900	Oblast
Disabled Minors*	180,600 (3)	179,700 (3)	189,400 (3)	Oblast
Shelters for Minors	n/a	n/a	n/a	n/a
Elderly and Disabled*	882,300 (15)	817,000 (15)	981,700 (15)	Oblast
Mental Health/Psychiatric**	2760 (3)	2760 (3)	2760 (3)	Oblast

*Calculated in bed-days, no client numbers available

** Calculated as number of beds, no client numbers available

Table 3.12: Total Consolidated Expenditure on Residential Social Services: 2002-2005

Key Variables [Types of Institution, Year, Expenditure and (estimated Unit Costs in UAH)]					Expenditure Composition for Residential Services		
Residential Institutions	2002 UAH	2003 UAH	2004 UAH	2005 UAH	Structure of actual expenditure in 2004 expressed in % of annual total	Changes in the structure of actual expenditure 2004 versus 2003 expressed as % of annual totals	Changes in the structure of expenditure in 2004 (actual) with 2005 (planned) expressed in % of annual totals
Orphaned children/Children without parental care	11,907,900 (8,518)	15,533,400 (10,749)	16,300,600 (12,865)	25,609,300 (20,669)	17.3	-0.5	-1.1
Children's Homes	2,801,000 (9,305)	3,516,800 (11,059)	4,225,700 (12,883)	7,399,900 (19,999)	4.5	0.5	-0.8
Children with Physical and Mental Health Disabilities	9,325,200 (4,163)	13,258,400 (6,138)	14,704,300 (6,923)	20,063,900 (9874)	15.6	0.40	1.2
Baby Homes	5,777,300 (n/a)*	6,949,900 (n/a)	8,098,000 (n/a)	12,794,700 (n/a)	8.6	0.7	-0.6
Disabled Minors	4,760,000 (n/a)	5,338,000 (n/a)	5,800,900 (n/a)	8,553,900 n/a)	6.1	0.0	0.0
Shelters for Minors	n/a**	n/a	n/a	n/a	-	-	-
Elderly and Disabled	18,137,800 (n/a)	22,818,100 (n/a)	23,707,000 (n/a)	34,985,400 (n/a)	25.2	-0.1	0.1
Mental Health/Psychiatric	14,436,400 (n/a)***	19,589,100 (n/a)	21,372,700 (n/a)	29,684,400 (n/a)	22.7	0.0	1.4
Total Expenditures	67,145,600	87,003,700	94,209,200	139,091,500	100.00	-	-

Notes: n/a* = no data available, n/a** = no data on unit costs because client date recorded as bed-days; n/a*** = no data available because data only record number of beds rather than clients

Table 3.13: Community-Based Service Agencies, Number of Agencies, Number of Clients/Service Users 2002-2004

Community-Based Service Agencies	Total Number of Clients by Year and (Number of Agencies)			Funding Sources
	2002	2003	2004	
Centres of Social Services for Youth and Families	19,732 (37)	19,878 (44)	23,412 (46)	Oblast, Rayon and towns of Oblast significance
Territorial Centres and Divisions of Domiciliary Assistance	45,049 (42)	49,063 (42)	46,976 (42)	Rayon Budgets and Oblast level cities
Early Rehabilitation Centres for Disabled Children	-	0 (0)	50 (2)	Towns of Oblast significance

Notes: n/a = no data

Table 3.14: Total Consolidated Expenditures on Community-Based Service Agencies: 2002-2005

Key Variables [Types of Organisation, Year, Expenditure and (estimated Unit Costs in UAH)]					Expenditure Composition for Community-Based Service Agencies		
Community-Based Service Agencies	2002 UAH	2003 UAH	2004 UAH	2005 UAH	Structure in % of actual expenditure on Community-Based Service Agencies in 2004	Changes in the Structure of actual expenditure 2004 versus 2003 expressed in % of annual total	Changes in the structure of expenditure in 2004 (actual) with 2005 (planned) expressed in % of annual totals
Centres of Social Services for Youth and Families	925,100 (46.9)	1,542,100 (77.6)	2,361,800 (100.8)	3,139,000 (74.0)	10.3	2.7	1.2
Territorial Centres and Divisions of Domiciliary Assistance	14,939,600 (331.2)	18,719,600 (381.5)	19,858,500 (422.7)	30,506,500 (615.2)	87.0	-5.0	1.5
Early Rehabilitation Centres for Disabled Children	-	107,500 (0)	605,400 (12,108)	820,700 (16,414)	2.7	2.2	0.3
Total	15,864,700	20,369,200	22,825,700	34,466,200	100.00%		

Table 3.15: Composite Expenditures for Residential and Community-Based Services

Year Service Type	2002 UAH (% of total)	2003 UAH (% of total)	2004 UAH (% of total)	2005 UAH (% of total)	Changes in the structure of actual expenditure 2004 versus 2003 expressed in % of total annual expenditure	Changes in the structure of expenditure in 2004 (actual) with 2005 (planned) expressed in % of total of annual expenditure
All Residential Services	67,145,600 (80.9)	87,003,700 (81.0)	94,209,200 (80.5)	139,091,500 (80.1)	-0.5 →	0.4
All Community-Based Service Agencies	15,864,700 (19.1)	20,369,200 (18.9)	22,825,700 (19.5)	34,466,200 (19.9)	-0.4 →	-0.4
TOTAL Expenditure on all social services (UAH)	83,010,300	107,372,900	117,034,900	173,557,700	Change in actual expenditures 2004 versus 2003 (%) → ↓ 8.25	Change in expenditures 2004 (actual) versus 2005 (planned) % ↓ 48.3
Total Oblast Budget [general and special] and (%) of total expenditure on social services	Note this part of the table needs to filled-in by BSAL	ditto	Ditto	Ditto		

General Observations:

- Residential service provision – a proportion of budget allocations – has dominated expenditures on social services between 2002-2005;
- Unit costs – albeit based on partial data – are significantly lower for the provision of community-based services than residential services. The exception being Community-Based Early Rehabilitation Centres [CBERCs] where the unit costs registered 12,108 UAH in 2004 and 16,414 UAH in 2005.
- Data recording systems are not unified with some units of data collected in the basis of the number of clients, some based on bed-occupation expressed in number of bed-days, some based on number of beds, and in some areas no data is available. This variation in recording systems [also observed in Khmelnytsky] makes the calculation of units costs, and comparisons across different services, difficult to undertake;
- The attribution of expenditures for different social services [residential and community-based] are difficult to determine given that costs are horizontally distributed across different subventions and vertical budget programmes;
- The level of overall spending on residential services, as a percentage of total expenditure on social services, is remained stable [at around 80 per cent] between 2002 and 2005; likewise expenditures on community-based social services has also remained stable [at around 19 per cent];
- Expenditures on the elderly and disabled, mental health and psychiatric services, orphaned children/and children without parental care account for the largest proportions of total expenditure on social services;
- Total expenditure on social services, as a percentage of total Oblast expenditures, appears – based on actual expenditure data for 2004 and 2005 – to be **XXXXXXX (stable?, declining?, increasing? - to be filled in by BSAL).**

Strategic Planning

Kharkiv Oblast produces, like every other Oblast in Ukraine and accordance with the Law on State Forecasting and Development of Programmes for Economic and Social Development⁵⁸, an annual programme for socio-economic and cultural development⁵⁹. The annual programme is supported by an accompanying “Action Plan” - which elaborates on the priorities. In addition, there is long-term development strategy⁶⁰, and a separate “annual programme” for social protection⁶¹.

⁵⁸ See: footnote 50

⁵⁹ Annual Plan for Social and Economic Development, Kharkiv Oblast, 2006

⁶⁰ entitled: “Kharkivshchyna: 2010”, Kharkiv Oblast, 2006

⁶¹ Annual Programme for Social Protection in Kharkivska Oblast, Kharkiv Oblast, 2005.

Problems reflected in the Oblast strategic planning documents:

- Allocating resources to establish, expand and maintain CBERCs;
- Registration of people in need of cash benefits;
- Establishing unified computerised database on children at risk – including juveniles at risk of committing offences, children at risk of being homeless, or actually living on the streets, children in risk families⁶².

Tasks:

The Oblast strategic plan emphasises:

- Improving the range and quality of services provided by territorial centres;
- Improving the quality of services in residential institutions [including upgrading equipment through targeted subventions from the state budget];
- Expansion of centres of CBERCs;
- Expansion of family type orphanages, foster families, centres of social and psychological rehabilitations and crisis “shelters” [which fall under the remit of the Oblast Department for Family and Youth]. It is noteworthy that these areas of policy are elaborated – in some detail – in the “Action Plan” of the Oblast strategy.

The annual Social Protection programme resonates with the Oblast strategy. However, in the annual programme tends focus on early rehabilitation centres for disabled children and services for minors. Given the attention devoted to this particular area of social services policy the annual social protection programme provides:

- An overview of the network of service providers for disabled children – and states that plans to be implemented involves opening CBERCs alongside territorial centres at rayon level across the Oblast;
- An outline of the key problems that confront the funding of CBERCs;
- A framework for the re-organisation of existing “shelters”, and turning them into “centres of social and psychological rehabilitation” and opening similar centres across different parts of the Oblast.

Budget Process and Budget Control

There are very few references in the key strategic planning documents to budgetary matters. However it is notable that the annual “Action Plan” identifies the need “*to optimise network of budgetary institutions according to needs and financial capacity*”. Although no elaboration is given as to how an optimisation process might be put into

⁶² The rationale for a unified database is based on the fact that data is collected and held in a fragmented manner. In addition, information on different groups of children is held on the basis of which organisation has “responsibility” rather than on the level of risk posed to a child’s welfare. Moreover, the plan refers the fact that social services cannot be divorced from the financial aspects of social security, and as such there is a need for a database that unifies social service and financial aspects of risk.

operation, or what the term “optimisation” means, the fact that the need for this to happen is identified is first step⁶³. The annual social protection programme in many respects illustrates the approach to budget process and budget control issues with its reference to the need to supply funding for activity ‘x’ or programme ‘y’ with very little attention given to priority setting or strategic financial planning⁶⁴. The lack of attention given to strategic planning is reflected in the fact that there is no overall co-ordinating structure with responsibility for monitoring the execution of planning documents. Indeed, the Oblast statistics department is involved in the collation of a significant amount of data, but very little of this data is analysed in manner that would facilitate the development and strategic prioritisation of future policy, or encourage reflective learning on the performance of past strategic planning frameworks.

Specific Social Service Issues:

In conducting the financial and budgetary appraisal in Kharkiv, qualitative interviews were also undertaken on the following social service institutions:

Baby homes

Baby homes are resident institutions for children under 3 years of age without parents [usually abandoned in hospital maternity units]. These institutions are incorporated into the health care system – which means they are managed by the health care departments and financed out of the health care budget. However, in reality baby homes do not offer much that can be associated with “health care” and their role does not differ very much from the type of services provided by other residential institutions that fall under the remit labour and social policy or education and science. The situation with baby homes exemplifies a service that is being provided by an ill-suited department, with the result that clients [babies] are often neglected or inappropriately served. Officials in Kharkiv indicated that baby homes were “purely social institutions” that lay beyond the scope of institutional competency within the health care department⁶⁵. Moreover, officials in the health care department openly admitted that baby homes represented a very low priority compared with all the other health care problems they need to resolve. As consequence

⁶³ The Action Plan states that financial departments and line departments will be responsible for tasks associated with “optimisation”. However, when the DFID FRSSU Project team tried to establish how, and whether, work was being carried out in this area the response were vague, and indicated that not much progress had not been made.

⁶⁴ It is noteworthy, however, that the Health Care section of the Action Plan suggests that the Oblast will “introduce and implement **non residential health care services**”. This approach in the health care sector could be related to the fact that the health care department, unlike departments with responsibility for social services, are looking at more flexible approaches to way resources are allocated, and are willing to think about more effective ways to providing services. However, it is unclear whether baby homes – which provide social services – will be incorporated into this approach.

⁶⁵ It is notable that when officials refer to baby homes they refer to “social beds”. Officials also indicated that if a baby was ill or needed medical attention then they were treated in the main hospital and not on-site in the ‘baby home’.

the department finds it hard to give due professional attention, and devote resources, to baby homes.

It is noteworthy that baby homes are not mentioned in any of the planning documents issued by, or with contributions from the Oblast health care departments [e.g., the socio-economic and cultural plan]. Indeed, the annual social protection programme simply states that baby homes “*need to be maintained*”, although officials stated that financing for baby homes is in “*a constant state of deficit*”, and that the biggest problem “*is finding money to run them*”. At the same time, officials are sceptical about introducing alternative methods for providing services to abandoned babies.

Services for Minors

Services aimed at minors – which previously concentrated on providing peripatetic care - underwent significant transformation in the Oblast in 2005. Under the strategic guidance of the MoFYS reforms were initiated that shifted peripatetic care from “shelters” to the creation “centres for social and psychological rehabilitation” [CSPRs]. As a result, the system currently includes both – regular “shelters” for minors and the newly created CSPR [most of which are re-organised shelters]. The difference between the two types or provision is that children can formally reside in a CSPR, and receive a wider range of support services than in a shelter that only provided short-term care.

As the official initiator of this reform, the MoFYS secured a subvention from the state budget - which was approved in the 2005 budget law - in order to finance CSPRs. However, this was a temporary arrangement and the targeted subvention from the state budget disappeared in the budget for 2006. The CSPRs that have been established are, following the loss of targeted funding in 2006 - currently financed from a different subvention – a subvention for “streamlining the disproportion of existing networks of budget institutions” [which is a popular fund of last resort for the local budgets]. The MoFYS is apparently seeking to tie CSPRs into future targeted subventions from the state budget.

Foster Families and Family-type Children’s Homes

Similar to the service for minors, foster families and family-type children’s homes are now financed via targeted subventions from the state budget. However, major concerns about formula distortions remains since a range of other institutions lie beyond the budget formula for social services [including the newly created CSPRs, and the previously created CBERCs]. Officials voiced concerns that targeted subventions are a less reliable source of revenue given that targeted subventions are less ‘regularised’ given that they are promulgated through Cabinet of Ministers [CoM] Resolutions, which are less invincible compared to regular laws that embed budget formulae.

Partnerships with NGOs

In the context of assessing Kharkiv Oblast appraisal of partnerships with NGOs concentrated on the City of Kharkiv and not the Oblast⁶⁶. Observations in this section relate to the city of Kharkiv which has relatively cooperation with the local NGOs. The department of social protection of the city administration contracts NGOs on a wide number of service and information related issues. However, apart from the social protection department, the only other department that engages in contracting NGOs is the department for family and youth. However, in terms of financial scale cooperation with NGOs by the latter is significantly smaller than with the department for social protection. In both departments tenders for services to be delivered by NGOs are conducted in accordance with public procurement rules issued under CoM Resolution No 559 [29 April 2004]⁶⁷. The Resolution requires the creation of a tendering commission - which is responsible for the whole process of contracting out of the services. The commission includes representatives from the city administration and the city council. The process of contracting starts after approval of the annual municipal budget - which includes an approval of financial resources assigned for subcontracting to NGOs. Examples of subcontracting priorities for 2006 include:

- Employment of disabled people;
- Implementation of social technologies for the rehabilitation of disabled people;
- Development of a databases of vulnerable and at risk groups;
- Development of community-based social services for vulnerable and at risk groups.

Table 3.16 below provides an overview of NGO funding trends in Kharkiv Oblast.

⁶⁶ This was primarily due to time and geography. However, table 3.16 below on NGO financing does refer to Oblast wide data.

⁶⁷ After proposals are submitted, the tendering commission conducts an open briefing where all bidders present their proposals. The selection criteria are specified by another Cabinet of Ministers Resolution [No 165, 27 July 2004] These criteria are, however, considered by local officials to be badly designed [e.g., on criteria focuses on “positive or negative profitability of NGOs” which is hard to judge the meaning of when assessing not-for-profit organisations]. On the basis of this resolution, the tendering commission can develop its own simplified selection criteria to include: (i) financial position of bidders; (ii) experience in providing social services; (iii) qualification of personnel; (iv) concrete indicators of social services; (v) price of social service. The department of social protection monitors the activities of contracted NGOs. Performance and outcome evaluations are conducted by the tendering commission.

Table 3.16: NGO Funding, Year and Number

Year	2002	2003	2004	2005
Amount (UAH)	412,000	1,320,900	1,054,600	1,344,900
Number of NGOs Funded	Data needs to be obtained from Oblast	ditto	ditto	Ditto

An Evaluation of Setting and Promoting Strategic Priorities:

Taking account of the six *process* dimensions of PEM [see Chapter 1] it is possible to qualitatively assess the extent to which setting and promoting strategic priorities has been achieved by the introduction of the Budget Code, and to identify some of the challenges with respect to the reform of social services and the policy implications for the Law on Social Services. Table 3.11 below provides an overview of the assessment:

Table 3.17: Assessment of Setting and Promoting Strategic Priorities

Process	Comments
Political Engagement	There is lack of coherence in the policy making framework which is reinforced by structural and sequential dissonance between the GAP, the State Programme of Economic and Social Development and the Budget preparation process. In a decentralised system policy dissonance at the central level of government has profound implications setting and promoting priorities for lower-tiers of government. The absence of an active interface between politicians and civil servants on policy development and policy design – combined with hasty drafting of legislation and regulations - constrains the opportunities for effective political engagement
Policy Clarity, consistency and affordability	The President's address to Parliament sets a clear sense of the government policy priorities and objectives – including the direction of reforms in social services. However, regulations and procedures of the CoM (e.g.: the production of 'concept' papers, and financial estimates for new legislation – such as the Law on Social Services) do not appear to be followed in practice. Thus establishing policy consistency and assessing the affordability is weakened, and leads to the generation of

	<p>under-funded or un-funded mandates being thrust on lower tiers of government. Moreover, the division between the budget process (lead by MinFin) and standard setting (by central line Ministries) leads to a disjuncture between policy objectives and their practical realisation. For the reform of social services, this division has meant that the policy goal of reducing the dominant use of residential services, and expanding community-based services, is lost in the excessive ‘noise’ generated by the production of standards and regulations (which are prepared without any reference to associated budget implications), and a lack of attention to the path-dependency of residential services which is reinforced by the formula used to calculate budget expenditures.</p>
Predictability	<p>Although the Budget Code established a formula for assessing revenues and equalisation transfers, the application of the formula’s [alongside getting to grips with their complexities] – are subject to frequent changes based on the annual Budget Law. Frequent changes in weights and values attached to variables in the formula make it extremely difficult for local tiers of government to develop medium or long-term financial plans, or to implement coherent and <i>strategic</i> development policies for social services – the outcome is series of ad hoc <i>tactical</i> initiatives as specified in the annual Oblast level socio-economic and cultural plans.</p>
Transparency	<p>Transparency in decision-making is key ensuring accountability and has an important role to play in economic stability, allocative efficiency and distributive equity. However, the network of <i>budget managers</i> – which are vertically structured – is opaque and makes transparency in budget preparation, execution and control difficult. Hence no one in government has a full overview of expenditures on all residential social services or the percentage of GDP that is spent on social services, or the <i>Balance of Service Provision</i> that should be established to meet needs at local tiers of government. With regard to NGOs decision-making on the allocation of public revenues often lacks sufficient levels of transparency.</p>
Comprehensiveness and Integration	<p>Expenditure policies, revenue policies and regulation policies towards social services are weakly integrated. Moreover, because subventions from central government and the formula used to calculate the level of subvention is biased towards residential services, and because community-based services are not included in the formulae, the achievement of comprehensiveness and integration between strategy formulation and budgets for social services is inhibited. The implications of this bias is that residential services continue to dominate social services expenditures, and USIF social service micro-projects being created in institutional vacuums that reinforce un-funded mandates – particularly when core funding - from the loan for innovative services ceases.</p>
Accountability	<p>In theory decentralisation is supposed to improve service delivery and improve local accountability. However it is clear that there is lack of conceptual and operational clarity between decision-making tasks that have been de-concentrated, delegated or devolved with respect to the administration of social services across different tiers of government. The absence of clarity in fiscal</p>

	<p>decentralisation ‘pollutes’ the achievement of government objectives and reduces horizontal [across line Ministries] and vertical (between tiers of government) accountability. Indeed, the precise combination and importance attached to the de-concentration, delegation and devolution of decision-making for social services is not well defined thus the goals of fiscal decentralisation operate at sub-optimal levels, and the benefits of decentralisation fail to materialise. On the other hand, it is clear that while many of the community-based social services advanced by the Law on Social Services are classed under Article 91 of the Budget Code, the opportunities for innovation in social service delivery – to meet local needs - are constrained by the absence of reliable sources of marginal revenue by local tiers of government, and by the imposition of un-funded regulations and standards of service delivery from above.</p>
--	---

Conclusions and Defining Strategic Options:

It is clear from this diagnosis on setting and promoting strategic priorities that both central and decentralised units of decision-making play an important role in the current management of social services, and will have an important hand in the future reform of social services in accordance with the GAP and the Law on Social Services. Working towards the achievement of EU norms and standards with regard to strategic planning and budget systems for social services will nevertheless require additional efforts. Part of this effort, which is linked to the implementation of the Law on Social Services and generating a positive rate of return from the social services sub-component of the USIF loan, will need to focus on a clearer functional division of responsibility between different levels of government, and on local social planning [in accordance with EU practices⁶⁸]. Establishing clearer functions would need to curtail the current practice of dividing responsibility for each functional budget category between different levels of government, and shifting the assignment of entire functional categories to a single budgetary level. For example, there currently exist residential institutions and community-based social service agencies of city and rayon and Oblast sub-ordination. This complicates the co-ordination of single comprehensive and rational system of social services delivery for a region – particularly a system that would facilitate the emergence of a *Balance of Service Provision* for different groups of clients, reduce the dominance of expenditure on residential social services, and enable unit costs to be fully determined.

While social services policy should aim to achieve a *Balance of Service Provision*, it is notable that since the introduction of the Budget Code in 2001 the use of targeted subventions - as a mechanism for financing delegated expenditures - has been on a gradual increase. If this observation holds true outside of social services, it suggests that there is trend towards increasing levels of centralisation in the public sector because targeted subventions leave less autonomy in decision making to the local budgets.

⁶⁸ See Annex 1

Moreover, the way in which targeted subventions are introduced suggests they are deployed in an *ad hoc* fashion, and have by default become a key mechanism for financing various reforms and decisions stimulated by the central governments [the reorganisation of the shelters for minors being a good illustration]. Excessive reliance on targeted subventions also represents a growing abuse of local autonomy [through unfunded mandates] and increasing fiscal unpredictability [as well as a lack of transparency in intergovernmental negotiations] for the local level because the availability of special subventions changes from year-to-year and to a large extent depends on political lobbying. Moreover, the equalisation grant is insufficient to finance even protected expenditure lines. Local authorities, therefore, have to raise additional financing from local own revenue sources. The implication is that it therefore becomes necessary for local government to continue to use the existing infrastructure of residential institutions, otherwise local budgets stand the risk of losing the social component of the equalisation transfers altogether. This generates a vicious circle: insufficient funding via equalisation transfer which tightens the size of local own revenues and makes the task of developing the balance of service provision even harder to achieve. This observation was expressed by the head of Budget Division at the Financial Department of the city.

The current distribution of responsibilities for social services between different Oblast level administrations [e.g.; Labour and Social Protection, Health, Education, and Family and Youth] and across different tiers of local government also increases *transaction costs*⁶⁹, and can create incentives for local governments to “free ride” on other administrations by under-financing their share of social services infrastructure. Such incentives are likely to become accentuated if the transfer formula is extended to small and numerous local administrations at the sub-rayon level. Against the evidence assembled in this chapter, and in the context of constraints on secure marginal revenue sources of local tiers of government, it would be wise for the GoU to consider shifting – as part of an essential medium term strategy for social services, and as part of on-going deliberations on structures for local self-government - all strategic planning and budgetary system responsibilities for social services [residential and community-based] to the Oblast level. The goal would be to optimise decentralised decision-making and ensure transaction costs of decision-making are kept to a minimum.

Of course there is no single indicator that can capture the optimal balance for decentralised decision-making fully, and no simple combination of indicators, such as an average sum, that can capture the multi-dimensionality of the optimum level at which decisions should be made. However, one way that the impact of decentralisation on social services can be measured is by assessing the organisational competence at which key policy steps can be implemented. The key policy steps in question are expenditure policies, revenue policies, and regulatory policies - each of which can be evaluated on whether it is pro-poor or anti-poor. In general policies that offer services used by the poor or socially excluded, redistribute wealth, or improve the treatment of poor and socially excluded people within society are pro-poor. At the moment it is doubtful

⁶⁹ See Chapter 3, Footnote 10

whether the strategic priorities that have been set for social services in the GAP can be achieved - alongside the maintenance of fiscal discipline [see Chapter 2] - without a greater degree of clarity between the goals of de-concentration, delegation and devolution; and without a re-alignment of managerial responsibilities and accountabilities between central and local tiers of government. The objectives of such re-alignments will ultimately depend on the extent to which the generation of public value is incorporated into systems for the management reform of social services.

Chapter 4: Delivering Public Value in Social Services

The Reform of Social Services in the Context of the Government Action Programme

Establishing systems and structures for the management and reform social services, as part of wider developments in social policy, has clearly been earmarked by the GAP as a central task for the Government of Ukraine. Seen through the lens of fiscal discipline and setting and promoting strategic priorities it is also evident that the level of clarity in institutional, technical and conceptual frameworks has a crucial effect in determining the technical and allocative efficiency and effectiveness of service delivery, and on the costs of negotiating, measuring and enforcing policy goals for social services. The introduction of new legislation and policy directions for residential and community-based social services cannot therefore avoid consideration being given to the following question: How can the changes being advanced by the Verkhovna Rada and the GAP generate *public value* in this field of social policy?

As an initial step towards answering this question this chapter focuses on the importance and application of the concept of *public value* to the task of reforming social services, its relevance to PEM and institution building in the field of social services, and elaborates on the important role it plays in strategic planning, risk analysis, and the management of change. This chapter of the diagnosis therefore:

- Explores how *public value* relates to the citizen/state relationship, and ‘public preferences’,
- Defines how private sector notions of *value* differ from *public value* in the assessment of PEM.
- Delineates the challenges for delivering *public value* in the context of managing and reforming social services.
- Evaluating *public value* for social services

It is clear from previous chapters that successful implication of policy aimed at providing social services needs to be underpinned by a common view of objectives, agreement as to what constitutes success and a clear understanding of the relationship between means and ends. It is also apparent that while the Budget Code makes general reference to the importance that should be given to the achievement efficiency and effectiveness in public services – via budget control and monitoring – it is noteworthy that there is an absence of criteria and procedures to guide and assess the extent to which the benefits generated by government action [including the growing use of targeted subventions from the state budget] across different tiers of government outweigh the costs i.e.; the extent to which *public value* is generated through public expenditure.

The absence of clear criteria and clear procedures for assessing the costs and benefits of public expenditure was viewed - by officials - as a major impediment to making judgements about the efficiency and effectiveness of social services [i.e., for different types of service and for different client groups]. Aside from concerns about the way the

concept of cost-efficiency was applied to assessing public value, and the dominant focus on technical rather than allocative efficiency, discussants were of the view that institutional relationships between external agencies such as the Accounting Chamber¹, the CID², and the internal controls exercised by separate ministerial departments³ were beset with confusion: “*verdicts on efficiency and effectiveness are usually arbitrary and imprecise*” and “*...normally a controlling agency simply declares that some of the expenditures or practices are inefficient without any explanations or recommendations*”.⁴ It should be noted that the pertinence of these observations extends beyond the focus on social services and concurs with observations made by the IMF⁵

Public Value, Citizen/State Relationship, and ‘Public Preferences’:

The concept of *public value* provides a useful way of thinking about the goals and performance of PEM in general and the provision of social services in particular. It provides a yardstick for assessing activities produced or supported by government – including social service functions *delegated* by central government to Oblasts and rayons; but also social services that may be provided, under contract, by other bodies such as private firms and not-for-profit non-governmental organisations.

Public value extends beyond external and internal accountability for the use of public expenditures, and incorporates managerial accountability - which assesses the results created by government through services, laws, regulations and other actions [see Chapter 1, Table 1.2]. In a democracy this value is largely determined by citizens ‘preferences’, expressed through a variety of means and refracted through the decisions of elected politicians. The value *added* by various tiers of government is the difference between these benefits and resources and powers - which citizens decide to give government. The legitimacy of government as a whole thus generally depends on how well its institutions [i.e.; laws, regulations, expenditures etc] improve PEM and create value. For a service to be of value it is not enough for government agencies and/or citizens to say it

¹ The Accounting Chamber is accountable to the Verkhovna Rada also See: DFID FRRSU Report - *Auditing for Improved Performance in Social Services Quality and Outcomes* (2006d)

² The CID is accountable to government

³ Internal controls by line Ministries with responsibility for social services can be a blend of professional and financial inspections (See Chapter 3)

⁴ Local tiers of government are formally subject to the powers vested in the Accounting Chamber and the CID. At a formal level the Accounting Chamber is charged with evaluation and inspection of expenditures on delegated functions – including social services. However, in practice the Accounting Chamber appears to provide only cursory oversight of these local expenditures. Local external control is most carried out by financial commissions established by local Rada’s. However, the function of the commissions is again understood to be cursory and focuses on establishing whether spending corresponds to budget lines. Discussants stated that “*a negative assessment of efficiency and effectiveness in our spending rarely has any practical consequences*”

⁵ op. cit. IMF (2004)

is desirable. It is only of value if citizens – either individually or collectively – are willing to give something up in return for it. Such sacrifices are not only made in monetary terms [i.e., paying taxes for services], they can also involve granting coercive powers to the state [e.g., in return for removing people who may be a risk to a place of safety], disclosing private information [e.g., in return for access to social services], giving up time [e.g., having their needs for social services for a particular type of social service]. The idea of *opportunity cost*⁶ is therefore central to public value in the provision of social services for children, the elderly or disabled, or for other groups who are at risk of social exclusion. As a general rule the key things that citizens' value tend to fall into three categories: outcomes, services and trust. These overlap to some extent, but they provide a useful way of thinking about the dimensions of public value.

Value and values are closely linked in PEM. Seen through the lens of public value, the ethos and values of any public organisation, service provider or profession must be judged by how appropriate they are to the creation of better outcomes, improved services and trust. Inappropriate values may lead to the destruction of public value. Much of the experience in improving PEM in EU member states has shown that public value is best maximised neither by competitive private markets nor by monopolistic public provision. Instead, the combination of strong public sector institutions and competition in the service delivery by private and not-for profit organisations can help achieve the best balance between accountability, innovation and efficiency.

It is clear that the GAP and the Law on Social Services – with its focus on expanding the provision of community-based social services - aims to shift the conditions under which public value in social services is achieved i.e.; changing the way in which the benefits of government action outweigh the costs [including the opportunity costs of the resources involved]. This shift accords with wider trends in EU member states - which commenced in the late 1970s, and in transition economies from the 1990's onwards - that some areas of government activity did not add value. This view was premised on the judgement that a growing public sector crowded out private sector investment and the contribution of non-governmental agencies; privileged producers at the expense of consumers; and squandered resources.

In more recent years⁷ views on the potential role of government as a generator of value have changed. It is no longer the case that government action is deemed unlikely to add value. During the 1990s there was a growing emphasis in bodies like the EU, Organisation for Economic Cooperation and Development [OECD] and the World Bank on the importance of governance arrangements in increasing the legitimacy of

⁶ *Opportunity costs* refer to the amount of goods and services which could have been obtained instead of another type of good or service. In the context of social services the opportunity costs are generally between providing social services through residential types of institution and community-based services. Thus if resources, which are finite, are tied-up with residential institutions the resources cannot be released to provide community-based social services.

⁷ Moore (1997)

governments and quality of decision-making, as well as service outcomes. Recognition has grown – based on evidence⁸ – that, in addition to well functioning markets [including a managed market for social services] successful democracies require strong and effective governments able to guarantee fair treatment, equal opportunities, access to a key range of services, and to act as steward of a country’s interests within and across generations.

The renewed focus on the potential role of government in adding to overall value takes account of the literature on the potential failure of government as a producer, regulator and shaper of outcomes. An understanding of ‘government failure’⁹, together with market failure, therefore needs to inform any analysis of where and when there is role for government in social services [and in these instances the appropriate nature of government intervention]. Even when there is a clear role for government this does not imply that direct provision by government is the only, or even the primary, route through which public value can be created. Employers, professional groupings, policy think-tanks, non-government organisations, citizens groups all have a key role to play in achieving the goals of social policy and the way social services are provided because public value is about gauging the performance of policies and public institutions, using evidence to inform policy and practice in public services, and making decisions about allocating resources and selecting the appropriate systems of delivery¹⁰.

Public preferences are at the heart of public value. Indeed, in a democracy only the public can determine what is truly of value to them. Unlike conventional welfare economics¹¹ public value - which takes on-board the efficiency dimension of welfare economics [defined as the ‘social objective function’] - also acknowledges that people’s preferences are defined by a much wider set of public goals and are influenced by the first-hand experience of family and friends and informed by public debate. In the context of improving PEM the GAP, the Law on Social Services, and new legislation like the

⁸ Huw et. al. (2001)

⁹ The literature on government failure argues - (Lipsky, 1980) (op. cit. Moore, 1995) (World Bank, 2002) - that politicians and public agencies can destroy value for a range of reasons including poor information about citizens’ preferences, the self-interest and rent-seeking behaviour of public officials, the capture of public agencies to narrow interest groups, and a lack of incentives for public agencies to act efficiently or responsively to citizens needs.

¹⁰ *op.cit.* Huw, et.al. (2001)

¹¹ Conventional welfare economics is based on a utilitarian account whereby value relies upon individual self-interest primarily derived through the consumption of goods and services. These individual preferences are, within conventional welfare economics, taken as given and beyond the reach of policy – makers. The role of policy is then to ensure that resources are used to achieve these objectives in an efficient manner. Efficiency is assessed along two dimensions – *allocative* [which focuses on doing the right things] and *technical* [are things being done in the right way?]. In relation to spending resources this translates into questions about: whether resources being spent in the right areas? [e.g.; residential services versus community-based services] and are the services costs effective? [e.g.; are resources being wasted?].

Children's Services and the Law on Social Work¹², the 'social objective function' is clearly to reduce the dominant use of residential service provision, encourage the development of a cost effective range of community-based social services, and reduce levels of social exclusion. However, the preferences of citizens in need of social services are likely – at least in the early stages of implementing reforms - to be resistant to the emphasis of these policy directions given perceived risks associated with lack of clarity on institutional responsibilities for the administration of these services between different tiers of government, uncertainty about the quality of the services that will be provided, and the potential loss of previously guaranteed benefits and associated social privileges. Resistance is also likely to emerge from: sub-rayon tiers of government given the absence of effective and reliable sources of revenue for services ascribed to Article 91 of the Budget Code; Oblasts, cities and rayons given the bias towards residential institutions in the equalisation formula that determines the volume and amount of transfers for *delegated* functions; and from professional groups who may fear the loss of power, authority and income from the reform of social services

To reduce the likelihood of these types of resistance and to increase trust in government policy towards social services – while at the same time maintaining a focus on achieving efficiency and effectiveness in the use of public resources for these services – there will be a need for the GoU to rebalance the formal systems used by the Accountancy Chamber, the CID and internal functional controls used by line Ministries and Oblast administrations away from narrow technical efficiency to a greater degree of focus on the allocative efficiency of public resources. Given that public value, as mentioned above, includes gauging the performance of policies and public institutions, assessing the evidence of what works, and making decisions about allocating resources and selecting appropriate systems of delivery, the role of agencies assigned with the responsibility for external and internal controls over social service expenditure and professional practice will also need to be strengthened and policy recommendations for change will need to have 'teeth' i.e.; have administrative consequences.

In establishing a framework for negotiating public preferences towards the reform of social services - while at the same time achieving a balance between *allocative* and *technical* efficiency – politicians and civil servants will need to pay particular attention to:

- The target environment within which new organisational systems and technical procedures within which social services for different client groups will be delivered;

¹² Providing Organisational and Legal Conditions for Social Protection of Orphaned Children and Children Deprived of Parental Care (Vidomisti of Verkhovna Rada, 2005, N6 p 147) – which establishes a new legislative and regulatory framework for foster care services, and the reform of residential child care institutions [including limiting the number of children in an institution to a maximum of 50], and the Draft Law of Ukraine on Social Work which attempts to define the tasks and scope of social work and social services and the eligibility and performance criteria of staff classed as 'social workers' (Bila 2005). See the DFID FRSSU Project Report *Europeanisation and European Choice: Social Services Policy and Legislative Frameworks* (2006c)

- A transition action plan, within which change from the old to new ways of doing things can be sequenced and implemented;
- The structure and composition of the financial and budget plans to ensure that resources are allocated and spent in the right areas.

Striking the right balance between technical and allocative efficiency and paying attention to the relationship between the target environment, a transition action plan, and the composition of the financial and budget plans will be critical to ensuring the public value is achieved in the provision of social services.

Private Sector Conceptions of Value and Differences with Public Value

There are clearly distinctions between the way private businesses and public services assess value. In a private market, value is created when business uses resources (labour, intellectual, physical and financial capital) to meet individual customer preferences that are signalled through the price mechanism. When private companies add economic value, this is reflected in an operational surplus; ultimately value is created using inputs in a way that delivers returns to shareholders that are as least as good as those resulting from alternative uses. In business there is clear distinction between means and ends. The boundary structures of private sector businesses have continually revised as part of the search for forms that will generate greater value [e.g., partnering, strategic alliances, franchising and joint-ventures]. However, the overarching goal – creating returns to shareholders – has remained consistent.

Public value aims to provide a similar yardstick for assessing performance within the public sector. In some areas there are substantial overlaps with private value. However, social policy - and organisations that deliver social services - has multiple objectives with no single ‘bottom-line’. The factors that make public value more complicated than its private sector counterpart need to be recognised and managed rather than avoided. There are undoubtedly similarities between value in the private and public sectors, but as discussed below, public policy often focuses on these similarities at the expense of significant differences:

- EU best practice traditionally place strong value on ‘public’ issues such as distributional equity and due process. The utility to any one citizen is affected by the government’s ability to discharge its responsibilities to others;
- It is difficult for individuals to register preferences on a particular issue. There is no device, such as a price mechanism, to aggregate the dispersed decisions of demand for social services made by individuals;
- Citizens themselves are involved in the production of public services in a way that is not the case in relation to private services [for example, in the area of social services families, citizens groups and non-governmental organisations often provide as much critical input to outcomes as public services do];
- There are more likely to be fundamental differences among the public about public values than there are among shareholders in a private enterprise. Shareholders may have differences on some issues [e.g., on the time horizon for

the payment of dividends], but these do not generally extend into ethical disagreements [e.g., over the nature of social justice and equal rights, or equal opportunities];

- Government has a stewardship function in relation to future generations that is different to a private enterprise's obligations to future shareholders. Firms have a legal responsibility only to their current shareholders [albeit one that includes the future value of their equity]. In contrast, democratic governments have an ethical responsibility to protect the interests of the next generation of citizens - though in practice, governments can take very short-term views.

The public value orientation towards public services has a number of stark differences with traditional approaches to the management of public services. The latter, by definition, was driven by a narrow perspective that ignored, or relegated, the importance of strategic planning, and risk analysis, and the management of change. It was precisely for these reasons that discussions about government failure in EU member states was dominant in the 1970's, and latter became a dominant issue in the transition countries in the 1990s. Table 4.1 below characterises some of the stylised differences between traditional approaches to the management of public services and the orientation of public value management:

Table 4.1: Approaches to the Management of Public Services

Variable	Traditional Approaches to Public Management	Public Value Management
Public interest	Defined exclusively by politicians and experts	Individual and public preferences (resulting from public deliberation involving various stakeholders)
Performance objectives	Emphasis on managing inputs	Multiple objectives: -Service outputs -Client satisfaction -Outcomes -Maintaining trust/legitimacy
Dominant model of accountability	Upwards through departments to politicians and through them to Parliament	Multiple: -citizens as overseers of government -clients as service users -taxpayers who fund public services
Preferred system of delivery	Hierarchical department or self-regulating profession	A range of service providers selected through a framework of commissioning (by government agencies) and providing services based on transparent and pragmatic basis of cost and quality by licensed or approved private sector, public sector, not-profit agencies
Approach to public service ethos	Public sector has monopoly	No one sector has complete monopoly, and therefore resources need to be actively managed
Goal of managers	Respond solely to political direction	Respond to citizens preferences through the provision of quality services

Source: Authors

The broad thrust of the GAP and the Law on Social Services aspires towards the achievement of EU best practice – particularly in the context of reforming residential services and expanding the scope of community-based social services. Implementing the policy scope of this particular piece of legislation, and other related and complementary legislation, will however need to be accompanied by shifts in practice away from traditional public management, and towards *public value* management that enable different line Ministries, Oblasts, cities and rayons, and external budget control agencies to:

- Carve an effective role for themselves in the process of managing change, in prioritising what needs to be done, and ensures that the goal of all relevant actors is joined-up in a manner that reduces *transaction costs*;
- Identify cross cutting policy issues that will provide value *added*;
- Promote strategic thinking and improve service delivery in a manner that is accountable to service users, and enables agencies to achieve their objectives;
- Develop a time-horizon that defines the different aspects that need to be taken into account as decision-making increases in complexity on the one hand, and preparation and implementation time decreases on the other; and
- Provide value for the expenditure public money.

Challenges for *Public Value* in the Context of Managing and Reforming Social Services

The management and reform of social services in Ukraine can be broadly characterised along two policy streams:

- Reducing the dominant use of residential services in a context where administrative and legislative management falls under a diverse range of line Ministries, and where delegated functions fall across the financial control of MoF and local tiers of government;
- Expanding the range, focus, content and quality of community-based social services as an alternative to residential services in the context of a Budget Code – and its technical structures - that is biased towards expenditures on the latter, and where marginal sources of revenue to fund services under Article 91 of the Budget Code are constrained.

Assessing public value across these two policy streams is made more difficult by the following features in the institutional and policy environment:

- High *transaction costs* in negotiating, measuring and enforcing policy;
- The absence of clarity between de-concentration, delegation and devolution of responsibilities and accountabilities for social services across different tiers of government which leads to sub-optimal benefits from decentralisation;

- The absence of systemic and structural alignment between strategic and budget planning at both central and local tiers of government;
- The absence of financial assessments on the implications of new legislation which fosters the generation of under-funded or un-funded mandates for *delegated* functions;
- The absence of comprehensive unit costs for social services to effectively compare the use of public resources, and to help establish the optimum *Balance of Service Provision* for different groups of clients.
- The dominant focus on technical efficiency at the expense of allocative efficiency by agencies charged with responsibilities for the assessment of costs and benefits of government activities;
- The increasing use of targeted subventions from the state budget, which generates less secure funding at the local level, for the implementation of centrally defined policies with attendant loss of local accountability;
- The lack of focus on client outcomes and a bias towards input standards.

Implementation of the Law on Social Services and related legislation, improving PEM, and achieving a positive rate of return from the social services sub-component of USIF, is clearly affected by prevailing features in the system; and by the extent to which central government has a clear strategic framework that enables lower tiers of government to follow policy objectives and operational guidelines that will visibly demonstrate public value. The status of the central line Ministries with responsibility for social services, their authority and their legitimacy are key factors in establishing this visibility because the reform of social services is process oriented and involves restructuring relationships between different tiers of government, incentives within the system, and administrative responsibilities. Technically reforming social services is complex. It needs sound infrastructure with good information systems and management skills, together with resources to put new organisational arrangements into place. Also, because “reform”, by definition, [see Chapter 1] implies a challenge to the status quo, it requires some form of consensus between different agencies.

Under prevailing conditions the decentralisation of social services to lower tiers of government has left key line Ministries with formal accountability for legislation, regulation and input standards but with little authority and/or mechanisms to improve PEM and the ‘levers’ to drive reform. Moreover, MoF allocates funds for social services to local tiers of government paying little regard to the priorities established by the GAP or to economic consideration of allocative efficiency. If there is lack of clarity on how to make policy objectives operational, implementation stands a high risk of faltering and the public value of social services will diminish even further. Table 4.2 below provides an overview of factors that affect the implementation of measures that will generate public value for social services, and compares these processes with the characteristics that exist in the policy environment of Ukraine.

Table 4.2 Factors Affecting the Implementation Process and the Generation of Public Value in Social Services in Ukraine:

Facilitating Factors	Current features that affect Implementation of Reforms and the Generation of Public Value
Clearly stated policy goals – where one main objective reduces the risk of confusion or conflict	Reform goals often in conflict – multiple objectives towards social services across different tiers of government conflict with the policy goal on social services in the GAP
Simple technical features – institutional knowledge and technology exists and no new resources needed	Highly complex features – local experience for the reform of social services lacking; and information, budgeting, costing systems are absent and need to be revised, and the roles of the Accounting Chamber, CBI and internal ministerial controls do not focus on allocative efficiency
Marginal changes from the status quo – easier to get incremental change agreed	Reforms require major changes to the status quo – major changes may be strongly opposed by different interest groups
Implementation by one agency – collaborating across agencies and different tiers of government complicates the process	Reforms involve a plurality of departments and different tiers of government – Difficult to achieve reform in the absence of a political and technical forum that brings key departments together to negotiate and shape policy dialogue
Rapid implementation – short duration limits the build of resistance and distortions of policy	Reforms are complex and execution is likely to be slow – new systems (procedures and institutional structures) for license-based commissioning and providing services have to be devised and established, and at the same establish pathways for reducing the use of residential services

Source: Authors

These factors are pertinent to structural and systemic changes in social services because the Law on Social Services, and other related legislation, specify particular institutional forms that are novel to the policy environment in Ukraine, and innovative in their implications for the way social services are to be delivered in future. The Law on Social Services, in keeping with EU norms towards the generation of public value [see Table 4.1 above], provides for the development of framework that will support the implementation of a **license** based arrangement for the **commissioning** and **provision** of community-

based social services for a variety of population groups as an alternative to residential services. The development of this framework is supported by:

- Section 3 Article 7, which states that “Agents providing social services may, on a **contractual** basis, involve other enterprises, institutions, organisations, physical persons, volunteers in particular, to perform this activity; and that social services may be fee-paying or free;
- Section 3 Clause 8, which states that “Non-governmental entities who want to provide social services on a professional basis at the expense of their own means, or through the state or local budgets, shall provide [services] on the grounds of **license**”
- Section 3 Clause 13, which states that “In the case where budget resources to finance social care services are provided in line with established order by non-state entities or individuals, local executive power bodies, and local self-government bodies on a **competitive basis** make **contracts** with entities providing social services as to the conditions of financing requirements with regard to volume, procedures and **quality** of social services provision
- Section IV Clause 16, which states that “Professional activity in social services be subject to **licensing** in line with the law of Ukraine “On licensing certain kinds of economic activity”
- Section V Clause 19 which states that “**Appeals** on a decision where social services are denied, their volume reduced or suspended, state or communal entities may appeal to the central or local executive body or local self government body that issued the **license** for social services provision [for non-state entities providing social services – the appeal will be lodged to the body that issued the **license** for social services provision or to the court].

This institutional framework raises a number of issues:

- It is silent on the question of how these new requirements will intersect with reducing the use of residential services;
- It advocates the introduction a new institutional structures for the management and delivery of community-based social services for different client groups – e.g.; elderly people, children and families, people with disabilities, homeless people etc;
- It is silent on the PEM and budgetary implications, and on how finite resources will be rationed across residential and community-based social services;
- It is silent on how the needs of citizens will be prioritised across different client groups and how access to services is to be granted to those citizens with greatest need;

- It is silent on how the qualifications and competencies of service providers [these could be not-for profit NGOs or for profit companies] will be determined to ensure that they are capable of producing the best client outcomes.

Identifying unit costs for residential and community-based services and determining allocative efficiency, for different client groups, will be critical to the task of achieving public value – particularly in managing the demand and supply of services. Indeed, both of these factors will depend on how the delivery of social services is to be organised and what methods will be used for the delivery of these services to different population groups. Rationing social services and matching them to clients is not a simple task. It requires an appreciation of demographic and social trends, technical knowledge to perform the “social service” and an ability to assess and match particular clients to residential or community-based services. The technical knowledge and specifications required for these service delivery tasks in essence forms the foundation for a system of licensing social service providers, while demographic and social trends provide indications of the types of services that will be required. Under the Law on Social Services it is not clear which central government departments will be responsible for establishing and organising the framework, nor is it clear how local tiers of government will organise and pay for the supply of services in a manner that establishes a *Balance of Service Provision* between residential and community-based services.

It is likely that three distinct aspects of **supply** will have to be balanced for the provision of social services for different client groups [e.g. elderly people, children and families, disabled people]:

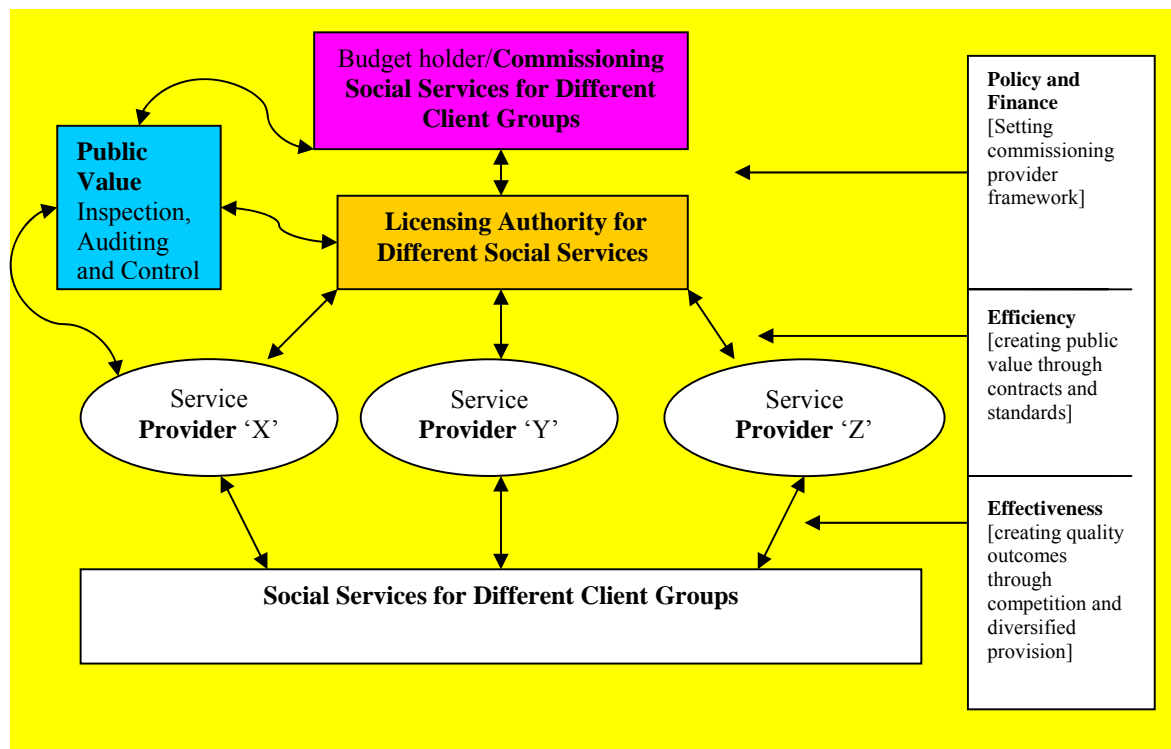
- The needs of clients [screening “needs” based on assessment and the development of individual social service care plans];
- The identification of appropriate and affordable interventions and prioritisation of funding to clients against cost and effectiveness criteria [demand management];
- The supply of the services efficiently, at a high quality [competent service providers].

The role of the financing framework in a licensed-based commissioning-provider arrangement will need to balance these three aspects. A financing framework, based on public value, achieves this by:

- Ensuring that demand is financed so that social services are rationed properly in accordance with agreed “need” screening criteria, and ensuring that those in need of social services access the services that yield the best outcomes, and
- Provide incentives so that the social service providers supply services efficiently and at a high quality based on clear outcome indicators and linked to appropriate incentives.

Organising the financing framework to support efficient and effective social services will primarily depend on the institutional structures. If a key role in the system is unfilled or mixed up with another – and results in conflicts of interest – fewer people will be served or they will be served below the optimum level, and resources will be wasted and public value will decline. The “commissioning-provider” model advocated by the Law on Social Services is recognised as an optimising mechanism [see Table 4.1] for PEM, and for the delivery of services within a license-based regime of social service provision. The commissioning-provider approach is also known as the system where the “*money follows the client*” [as opposed to money following the supplier of the service]. Diagram 4.1 below provides an illustration of the most basic structures of a commissioning-provider model for the delivery of social services:

Diagram 4.1 The Commissioning-Provider Model:



The commissioning-provider model separates responsibility for deciding which social services are provided to clients, from the responsibility for the delivery of services. The model provides the following benefits:

- **Improved Accountability** – by providing a clear delineation of responsibilities and the use of standards and performance monitoring;

- **Transparency** – with the use of formal contracts between the Commissioning Agency and its services providers, clients have better access to information on the quality of the services provided by the supplier;
- **Resource Allocation** – the Commissioning Agency has greater freedom and incentives to determine those services that most effectively and efficiently promote policy goals and stated objectives;
- **Efficiency** – the provider is given greater freedom and incentives to seek new ways of delivering services, resulting in more output for a given level of resources, or reduced units costs for a given output thus improving public value.

Establishing prices and budgeting systems will need to become the principal factors that govern effective commissioning and licensing of social services. This means, first and foremost, that the pricing structure the Commissioning Agency develops must reflect the *opportunity cost* of supplying either a residential or community-based social service. The price the Commissioning Agency offers the supplier must be a fair one, at least the average cost of supplying the service over the medium term, including capital costs for service improvements. If a price fails to take account of these costs, the supplier will either go out of business or social service standards will decline¹³. Hence the agency that makes decisions on the services that need to be provided pays for them. This means that the Commissioning Agency must be held responsible and accountable for the financial consequences of demanding services for clients. The Commissioning Agency must therefore control the budget for social services, and be accountable for all access issues, as well as the cost effectiveness of social service decisions.

When a commissioning-provider model is developed, service providers may not always be able or willing to respond flexibly to new demands. New providers may enter the market and this may lead to an oversupply of services, which will push up the unit cost and/or lead to deficits in budgets. This is because empty places have to be paid for and the provider may decide to add the cost for these empty places to the unit price for social services. In the face of such deficits, the Commissioning Agency will confront financial pressures, and providers may undermine service provision or simply downsize the volume of service provision. This issue requires careful attention, and transition strategies will have to be formulated that take account of demand, supply and unit prices for generic and specialised social services for a variety of client groups. The outcome of the transition strategy will need to focus on creating stability of service provision over the medium term, and ensure that incentives required by providers of social services are robust and effective. Service providers will only undertake this investment in social service provision if they are assured of a client base.

Setting prices and institutional arrangements for a license based commissioning-provider model for social services is clearly a challenge. How prices and institutional

¹³ This does not mean that the supplier should get whatever price they propose. It means that the prices the Commissioning Agency offers should not be subsidised – either in the form of free capital or by service providers in the form of under-pricing.

arrangements are defined will play a critical role in determining the steps required to introduce change and achieve public value. Achieving policy objectives towards social services - as specified in the GAP- in the context of the methodology delineated in the Law on Social Services raises the following practical questions:

- What level of government is optimally placed to undertake the responsibility of commissioning social services, generate economies of scale, and keep *transaction costs* in check?
- Which level of government is best equipped to co-ordinate the licensing of providers of social services?
- How will prices for social services [residential and community-based] be determined in the absence of reliable estimates of unit costs?
- How will a balance be established between residential and community-based social services when there are no targets for the reducing the number of residential institutions, or the number of admissions into residential institutions?
- How will perverse incentives in the equalisation formula, which reinforce the use of residential services, be reversed?
- How will the administrative and legislative fragmentation of line ministry responsibilities for social services be reduced to ensure that public value is generated?
- How will inspection, auditing and control and public value functions – currently performed by the Accounting Chamber, the CBI and internal controls by line Ministries – become realigned to take account of reforms in service delivery across residential and community-based social services?
- What steps can be taken to reduce dissonance between strategic and budgetary planning at central government levels, and across the different tiers of local government?

The answers to these questions are matters for policy dialogue and deliberation between central and local tiers of government. However, in formulating answers to these questions the following tasks will need to be considered:

- An analysis of **current need** for social services, which maps out the costs, determines who pays these costs, and the appropriate budget framework;
- An **institutional structure** for licensing, commissioning, providing, and pricing and linking this to a system of minimum output standards of social services to ensure quality; The institutional structure would have to consider the roles of line Ministries, and specify new roles, responsibilities, accountabilities and financial flows, and the specification of incentives for decentralised functions;
- **Scenario planning** for projecting possible future demand – linked to demographic changes and changes in the need for social services;
- A **costing** of demand scenarios, and the systemic and structural links that need to be established with State, Oblast City and Rayon budgets;

- A new structure for **financial flows** within the institutional structure for s new licensed based community-based social services, and demand scenarios referred to above;
- A strategic **activity plan** for the reform of social services– based on a logical framework, risk analysis and medium term budgetary framework – that links national and oblast level socio-economic and cultural development plans.

Table 4.3 Assessing Public Value and PEM

Processes	Comment
Political Engagement	The twin goals of democratic participation and economic efficiency across central and local tiers of government are central to the reform of social services. However, introducing a commissioning-provider arrangement for the delivery of social services will be complex given that existing systems lack coherence and the new system would have to run alongside features of administration and management that have graced earlier periods of service delivery. There is little evidence to suggest that there has been effective political engagement with the public, or among officials, on common objectives, assessing costs and benefits, agreement on what constitutes success, or a clear relationship between the means and ends for achieving external and internal accountability. Moreover, managerial accountability with a focus on outcomes and results is largely absent within current structures for monitoring and evaluation.
Policy Clarity, consistency and affordability	The GAP is very clear about the policy goal for social services, but is hazy on the details. The Law on social services is, on the other hand, more specific about the details, but hazy about how better outcomes, improved services and trust [by the public] will be generated. As a consequence various line Ministries with responsibilities for the delivery of social services have yet to carve and effective role for themselves, set priorities, or ensure that the goal of all relevant actors is effectively joined-up. Neither is it clear how the policy goals of the GAP for social services, the Law on Social Services and related legislation [such as new legislation on children’s services and the new Law on Social Work] will dove-tail will current budget and financing arrangements
Predictability	Current arrangements for assessing costs and benefits act as impediments to the process of making judgements about the efficiency and effectiveness of social services for different client groups. The activities of the Accounting Chamber

	<p>and CID tend to focus on technical efficiency [i.e. is money allocated or spent within a specific Programme Based Budget (PBB), rather than on allocative efficiency and whether policy goals are being met]. Consequently there is little, or effective, feed-back within the system on what works, what could be done better to generate and foster public value, or help with strategic planning.</p>
<p>Transparency</p>	<p>Decision making in social services is opaque. A feature which is reinforced with so many line Ministries involved and where budget planning runs along a parallel system that is managed between MoF and Oblasts, cities and rayons. This institutional arrangement creates difficulties in interpreting the outcomes of reports by the Accounting Chamber and the CID, and by various internal controls carried by line Ministries and is reinforced by the view that budget control and monitoring currently adds little to the generation of public value in social services.</p>
<p>Comprehensiveness and Integration</p>	<p>The Law on Social Services is very clear about the institutional structures that are anticipated for the future delivery of community-based social services. It specifies arrangements that need to be made for licensing, for commissioning and contracting, and for managing appeals. However, in the absence of a strategic plan, a transition action and medium term budgetary plan for social services, there is no guidance on how these institutional structures should be established, how many should be established, what institutions need to be established at central, regional or local levels? At the same time, the Law on Social Services is silent on how the new institutional structures are expected to dove-tail with existing arrangements that are used to deliver residential services, and on trade-offs will be made between residential and community-based provision</p>
<p>Accountability</p>	<p>Establishing clear systems of accountability in a decentralised system of policy development and service delivery is a complex task. However, under current administrative arrangements it is difficult to establish lines of accountability for the enforcement of policy particularly when there is a lack of clarity between tasks that have de-concentrated, delegated, or devolved.</p>

Conclusion and Defining Public Value for Social Services

Public value clearly performs an important role in PEM and in the implementation of reforms in social services. As such, public value needs to be viewed as integral to the reform process and simply as an administrative or managerial afterthought. The same degree of thought that goes into achieving fiscal discipline and setting and promoting strategic priorities should also go into developing a framework for assessing and evaluating public value. Establishing public value is, however, neither an exact science nor a process that can simply be left to the vagaries of luck or chance. Indeed, there are no pre-defined strategies that, if faithfully followed, will ensure that public value is achieved – particularly under conditions where reforms are ongoing. Thus creating conditions for the assessment of public value primarily needs to take account of allocative efficiency, macro-economic developments, the distribution of financial and administrative decision-making [horizontal and vertical] across different tiers of government, and the relative power and influence of key Ministries such as MoF need to be taken into consideration. It is thus difficult, if not counterproductive, to argue that public value can simply be achieved by focusing on questions of technical efficiency and whether expenditures comply with particular budget lines.

With these observations in mind it is possible to assess the extent to which public value registers in the context of implementing the Budget Code, and to identify some of the weaknesses in current approaches to PEM that have an impact on the achievement of allocative efficiency within the delivery mechanisms for social services.

It is clear that simply providing social services is no longer a sufficient justification for state funded intervention funded by citizens- whether these are provided directly [as currently prevails with residential services] or commissioned through contracted providers [as advocated by the Law on Social Services for community-based services]. The question that has to be answered is: do social services currently advance social or economic outcomes in line with the GAP? Answering this question requires three things: a readiness to think again about what is being achieved under current institutional arrangements; not assuming that the solution to any problem is the input of more resources; and establishing how resources, which are finite, will be rationed between residential and community-based services. It is clear that a lot more thought needs to be given how public value can be generated from the use of public money for social services, and how allocative efficiency can be improved – both of which require the inculcation of a public service ethos that focuses on:

- A strong commitment to services for individuals and the community which will need to be reinforced by training, support to staff and budget control and auditing systems that focus on a service culture and continuous improvement;
- A commitment to managerial accountability – with an emphasis on open access to information both to individuals, to groups of citizens, and the electorate at large;

- Recognition of the special responsibility to support the rights of all service users in an environment where their choice of service is restricted by resource constraint;
- Recognition of the need to work in partnership with others across the public and non-governmental sectors to contribute to the promotion of well-being and to meet the needs of individuals;
- Recognising that any particular system or strategy is by nature incomplete, and that government will need to keep on picking up the skills of indirect management and learning – thus civil servants [at all tiers of government] need to have an active role in making the system work through recognising that it will not work unless adjustment's are made on a continuous basis.

The full incorporation of public value into PEM for social services will demand a commitment to goals that are more stretching than those envisaged under previous management systems. It will require steering networks of deliberation and delivery – such as the policy forums – as well as maintaining the existing network of social service provision. It will also require asking more than whether regulations and procedures have been followed; it requires asking whether the goals for social services have been achieved, and whether the actions being undertaken to achieve these goals bring a net benefit to society.

Chapter 5: Public Expenditure Management, Strategic Planning and Policy Alignment

Preamble

The baseline framework for assessing PEM in social services has demonstrated that reform has specific characteristics that make bridging the gap between policy intent - as expressed in the GAP - and action – as expressed in the Law on Social Services and related legislation – particularly difficult. The ability to introduce change to the management and delivery of social services is clearly linked to fiscal discipline, setting and promoting strategic priorities and delivering public value. Some of the technical and organisational issues, and the concomitant policy implications, identified in this preliminary assessment clearly demonstrate that financial planning is critical in implementing reforms. It has also demonstrated: that financial planning is itself not sufficient for the achievement of improvements in PEM; that institutional structures [i.e.; rules, regulations, procedures and decision-making processes] are equally of critical importance to the achievement of success; and that under conditions of decentralisation – particularly where de-concentrated, delegated and devolved functions are not clearly defined – that the GoU will depend on the development of consensus among a range of departments, organisations and agencies to improve the quality and implementation of policy. A key to successful implementation of PEM in social services will therefore depend on maximising the potential of key policy forums¹ by establishing alliances of people, organisations, and agencies that can support the policy goals for social services as stated in the GAP.

The reform of social services – particularly on the *Balance of Service Provision* between residential and community-based services - has a long pedigree in EU member states, in transition states that have recently joined the EU, and in countries that are seeking to align their policies in this field with EU norms and standards in anticipation of closer association with the EU. For example, Sweden commenced on reforms in social services in 1992², the UK in 1992³, Czech Republic in 1999⁴, in Lithuania⁵ Croatia 2003⁶, and Macedonia⁷. A common focus to all these reform efforts has been to achieve the best use

¹ See DFID FRSSU report: *Preliminary Assessment of Public Expenditure Management for the Reform of Social Services* [September 2005] for detailed draft Terms of Reference of two policy forums that have been developed in partnership between the GoU, and the DFID FRSSU Project. The Terms of Reference were prepared in May 2005 and submitted to the GoU in June 2005.

² Johansson (1992)

³ Jordan (2004), Netten (2005)

⁴ DFID (1999)

⁵ Tobias (1999)

⁶ World Bank, DFID (2003)

⁷ World Bank (2004b)

of public money by ensuring appropriate stewardship of public finances and supporting those responsible for social services to achieve allocative efficiency, institutional effectiveness and public value by aligning strategic goals with budget planning. These experiences can provide generic lessons that the GoU can draw upon to develop its own priorities and to fashion its own reform agenda

The concluding chapter, based on the preliminary assessment, delineates three priority areas that the GoU – and the policy forums – will need to consider in the context of ensuring that greater alignment is fostered and developed between the GAP, the Law on Social Services and related legislation, and the Budget Code. Given the scale of the tasks associated with the reform of social services not all of the tasks can be performed simultaneously, and some will require more detailed policy deliberations within central and local tiers of government. The three priority areas presented in this concluding chapter are therefore presented in a sequence of **Priority 1** [short term – i.e.; within 12-18 months], **Priority 2** [medium term i.e.; within 20-36 months] and **Priority 3** [longer term i.e.; within 36-52 months]:

Priority 1 - Chapter 5.1: Strategic Planning, Transition Action Planning and Medium Term Budgetary Planning

Priority 2 - Chapter 5.2: Assessing Unit Costs for Social Services

Priority 3 - Chapter 5.3: Reforming and Revising Equalisation Transfers for Social Services

Chapter 5.1: Strategic Planning, Transition Action Planning and Medium Term Budgetary Planning

Introduction

Simply put, a Strategic Plan determines where the GoU is going with implementation of the Law on Social Services, and related legislation, over the next year or more, and how it is going to get there. A Transition Action Plan [TAP], on the other hand, delineates the outputs that need to be achieved in a planned and managed fashion, while the Medium Term Budgetary Framework [MTBF] provides a format for ensuring budgetary plans are fully integrated into the implementation process. The net effect of the Strategic Plan, the TAP and the MTBF is to enable the transition from one state to another, in a planned, orderly fashion. The GoU – which ultimately holds responsibility for establishing organisational arrangements for the implementation of the Law on Social Services - will find the Strategic Plan, the TAP, and the MTBF useful pathfinders for planning, sequencing and managing defined tasks; for analysing and assessing risks; and for reviewing progress and benchmarking policy and institutional achievements. The real benefit of the Strategic Plan, the TAP and the MTBF will be realised through the processes they set in motion, not the documents themselves. In the context of addressing the issues delineated in this preliminary assessment, politicians and civil servants are likely to spend a significant amount of their time “fighting fires” – i.e., spending time realising and reacting to latent and emergent problems. Under such circumstances it will be very difficult to stand back and take a hard look at what needs to be accomplished, how to accomplish policy goals and operational objectives, and assess progress. Indeed, there can be no “perfect” Strategic Plan, TAP or MTBF and the emphasis will need to be given to defining and delineating a series of manageable tasks that will help ensure that participating organisations do the necessary things as they head towards implementation.

To implement the Law on Social Services [LSS] and to achieve the GAP objectives towards social services central and local tiers of government will need to establish whether they are ready. While a number of issues must be addressed in establishing readiness, the determination essentially comes down to commitment to the effort, and whether key members of staff are able to devote the necessary attention to the “big picture” and a willingness to adapt to changing circumstances. The Strategic Plan, the TAP and the MTBF are therefore designed to ensure the following:

- The identification of specific issues and tasks that the implementation process will need to address;
- Clarifying organisation roles [who does what in the process];
- Development of organisational profiles;
- Identifying information that must be collected to help make administratively sound and cost-effective decisions; and
- That capital and recurrent budgets are incorporated into the planning process.

To make the most of the Strategic Plan, the TAP and the MTBF key decision-makers and will need to familiarise themselves with this preliminary assessment, and develop principles and formats in order to effectively manage the process of implementation. The Strategic Plan, the TAP and the MTBF will therefore need to be designed as living documents to be used and constantly referred to, and not placed on a bookshelf. Chapter 5.1 is divided into three main sections:

Section 1: Focuses on basic rationale for a Strategic Plan and the need to establish systemic links between fiscal discipline and setting and promoting strategic priorities for implementation of the Law on Social Services.

Section 2: Focuses on the basic rationale for a Transition Action Plan [TAP] and linkages to a logical framework, phasing, risk analysis, and a format for appraisal and reviewing progress with implementation.

Section 3: Focuses on guidelines for budget planning and the development of a Medium Term Budgetary Framework [MTBF] to support ‘vertical’ and ‘horizontal’ plans implementation of the Law on the Social Services and related legislation.

Section 1: The Strategic Plan

Overview

Strategy involves an element of choice between alternative ways of organising, managing and doing things. The concept of strategy is linked not only to questions of choice, but also to the structure of relationships between people and organisations, and to patterns of interaction on common goals and objectives. The Strategic Plan is therefore designed to help people and organisations think through what they want to achieve and how they will achieve it. Putting strategies into practice and acting strategically ensures that organisations focus on the things that really matter and are able to allocate their human, financial and technological resources accordingly.

Strategy in the public sector tends to be complex in its application and generally involves multiple goals rather than a single bottom-line. Hence Strategic Plans developed by the public sector deploy a range of policy levers, including laws, extension and withdrawal of rights, obligations, taxes and services. These plans are shaped by political decisions and aim to create public value – i.e. services and outcomes valued by the public. The latter provides a yardstick against which to gauge the performance of policies and public institutions, make decisions about allocating resources, and select appropriate systems of delivery. The emphasis given to a Strategic plans stems from the disillusionment with traditional “enclave approaches” to policy reform. This approach frequently failed to bring even short-term benefits, while consistently undermining long-term institutional development.

As a rule the best strategic plans developed for the reform of social services are:

- Clear about goals and relative priorities;
- Underpinned by a rich understanding of causes, trends, opportunities, threats and possible futures;
- Based on a realistic understanding of the effectiveness of different policy tools and the capabilities of institutions [Strategic Plans, TAPs and MTBFs that work well on paper but not in practice are of little use];
- Creative – with a focus on designing and discovering new possibilities; and
- Developed in partnership with, and communicated effectively to, all those involved in the implementation of the strategy.

Implementation of the Law on the Social Services could get by with improvisation or luck. But many of the most successful governments in the EU place strong emphasis on Strategic Plans as tools for achieving their objectives, particularly in economic growth and social policy, and in the development of measures for reducing poverty and social exclusion. Policies in countries with similar levels of financial and human capital have seen significantly different impacts on economic growth, poverty reduction and social integration. These differences in outcome partly reflect divergence in the ability of governments to develop and effectively implement Strategic Plans. These differences are compounded by variations in the efficacy of delivering social services, especially measures aimed at those segments of the population at risk of being excluded from the benefits of economic growth.

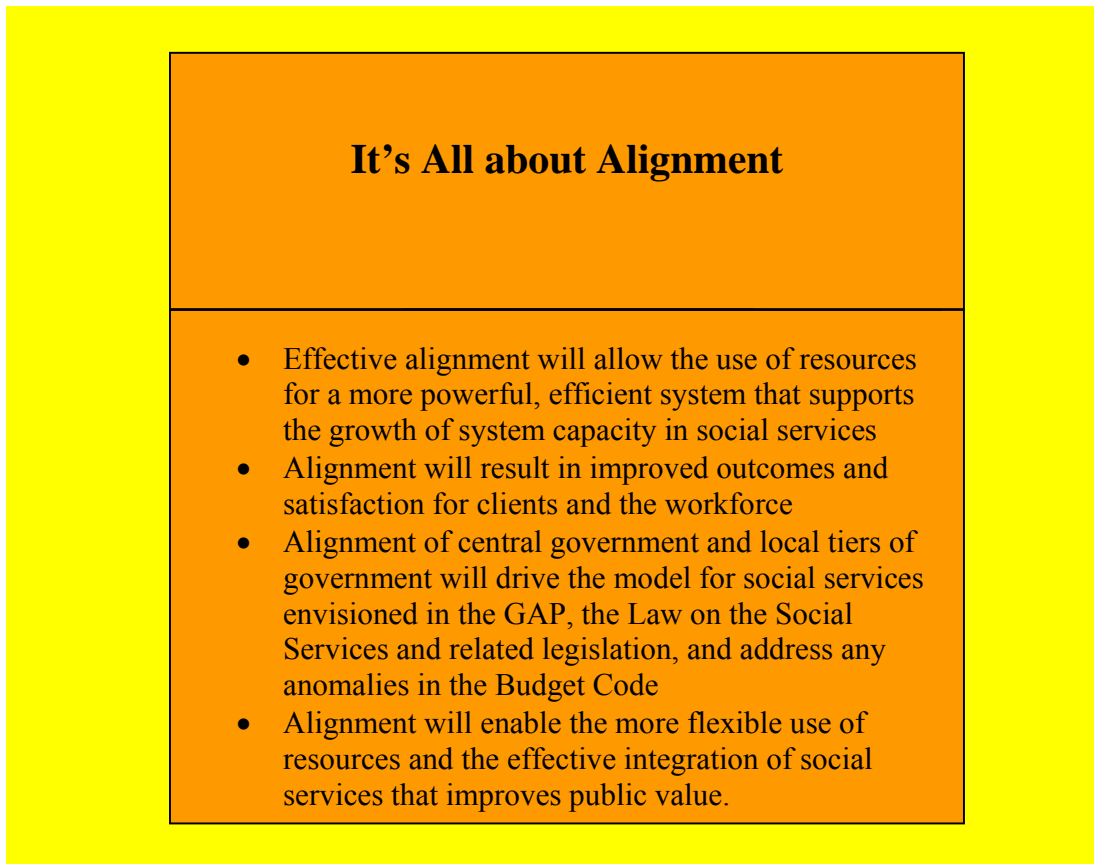
Developing a Strategic Plan for Implementation of the Law on Social Services

A strategic plan for the reform of social services should outline the directions for central and local tiers of government in the implementation of the Law on Social Services and ensure that reform objectives are compatible with the Budget Code, the Law on State Administration, and the Law on Local Self Government [see Chapter 3, Diagram 3.1]; the key outcomes that need to be achieved, and the tasks that will need to be undertaken to achieve the mission and vision for the future.

The Strategic Plan will need to be developed through an open process of consultation with key stakeholders. The accompanying TAP and MTBF will also need to embody the goal of the GAP towards social services.

One of the most important outcomes from the Strategic Plan is that it should contribute to more effective decision-making in the delivery of social services, and generate more effective **alignment** between institutions, systems and structures designated to support the reduction in use of residential institutions and expand the range and scope of community-based social services.

Diagram: 5.1.1



Section 2: Developing a Transition Action Plan for Implementation of the Law on Social Services

Structure and Format

Transition Planning refers to making changes in a planned and managed or systematic fashion. The aim of a Transition Action Plan [TAP] is therefore to effectively implement new methods and systems for the management of social services, and identifying ways in which the objectives of the GAP towards social services can be more effectively integrated with the strategic policy documents of central government [see Table 3.1], and with the realignment of responsibilities and accountabilities at local tiers of government. The ultimate objective of the TAP will be to align the Strategic Plan with a Target Business Environment [TBE] that promotes reforms, and enables the GoU to yield a positive rate of return from the social services sub-component of USIF. Tasks within the TAP that need to be managed lie principally within the formal remits of central government Ministries that have legislative and administrative responsibilities for social

services, and with MinFin and local tiers of government that have budgetary responsibilities for social services.

A useful starting point for thinking about transition planning is problem solving. Goals need to be set and achieved at various levels, in various policy areas, and across organisational functions. In addition, ends and means have to be assessed and related to one another. The net effect of a TAP is achieving transition from one state to another, in a planned, orderly fashion. The practical matter of managing change is one of identifying a course of action – as defined in the Strategic Plan – and settling on a course of action – informed by *risk analysis* – that will bring about the desired and predetermined changes to the current situation. There is no correct or best method for developing a TAP, and the approach will need to be eclectic and pragmatic. Indeed, the ‘recipe’ for success in *transition planning* has less to do with a particular method, but with the level of attention given to:

- The **logical framework** that will need to underpin a TAP;
- The **phasing** of Tasks, Inputs and Timescales;
- The **risk analysis** framework; and
- The system of regular **reviews** that is established to determine the extent to which progress has been, or is, achieved.

There is a significant risk that central and local tiers of government involved with social services policy will suffer from *transition planning* ‘overload’ if attempts are made to embark on too many new tasks at once, if the importance of sequencing is underestimated, and if financial and human resource requirements are overlooked. The TAP therefore needs to map – using the logical framework - the specific transition related tasks within the context of achieving the vision and mission delineated in the Strategic Plan, and focus on how each specific output in the TAP can contribute to the strategic vision and improve outcomes from public expenditure on social services.

The Logical Framework

Logical Frameworks are widely used by governments in EU member states to help strengthen policy design, implementation and transition planning, sequence tasks, and appraisal and evaluation. Within the tasks, the logical framework helps determine the role(s) and responsibilities of different departments, and provides a schedule of actions that will need to be undertaken. It is also used as the focus for appraisal and evaluation while implementation is under way. The logical framework is a simple but potentially powerful tool, which helps:

- Achieve consensus;
- Organise thinking;
- Relate tasks to expected results;
- Set performance indicators;
- Allocate responsibilities; and
- Communicate concisely and unambiguously to all stakeholders.

The logical framework is used for planning, implementation, appraisal and evaluation of the Strategic Plan and the TAP because of the following advantages:

- It will help draw together all key components for implementation of the Law on Social Services into a clear set of statements;
- It is easy to use and facilitates risk analysis;
- It anticipates implementation and helps plan outputs and tasks;
- It sets up a framework for appraisal and evaluation where planned and actual progress on implementation can be compared; and
- It is a living document and is easy to refer to during implementation.

The basic structure of the logical framework is based on the following logic:

- IF we undertake the tasks AND the assumptions hold true, THEN we will create the specified outputs;
- IF we create the outputs AND the assumptions hold true, THEN we will achieve the purpose;
- IF we achieve the purpose AND the assumptions hold true, THEN we will contribute to the goal; and
- IF we contribute to the goal AND the assumptions hold true, THEN we will achieve the super goal.

The basic 'IF', 'AND' 'THEN' logic of the logical framework operates in the following matrix form:

Table 5.1.2: Logical Framework Matrix

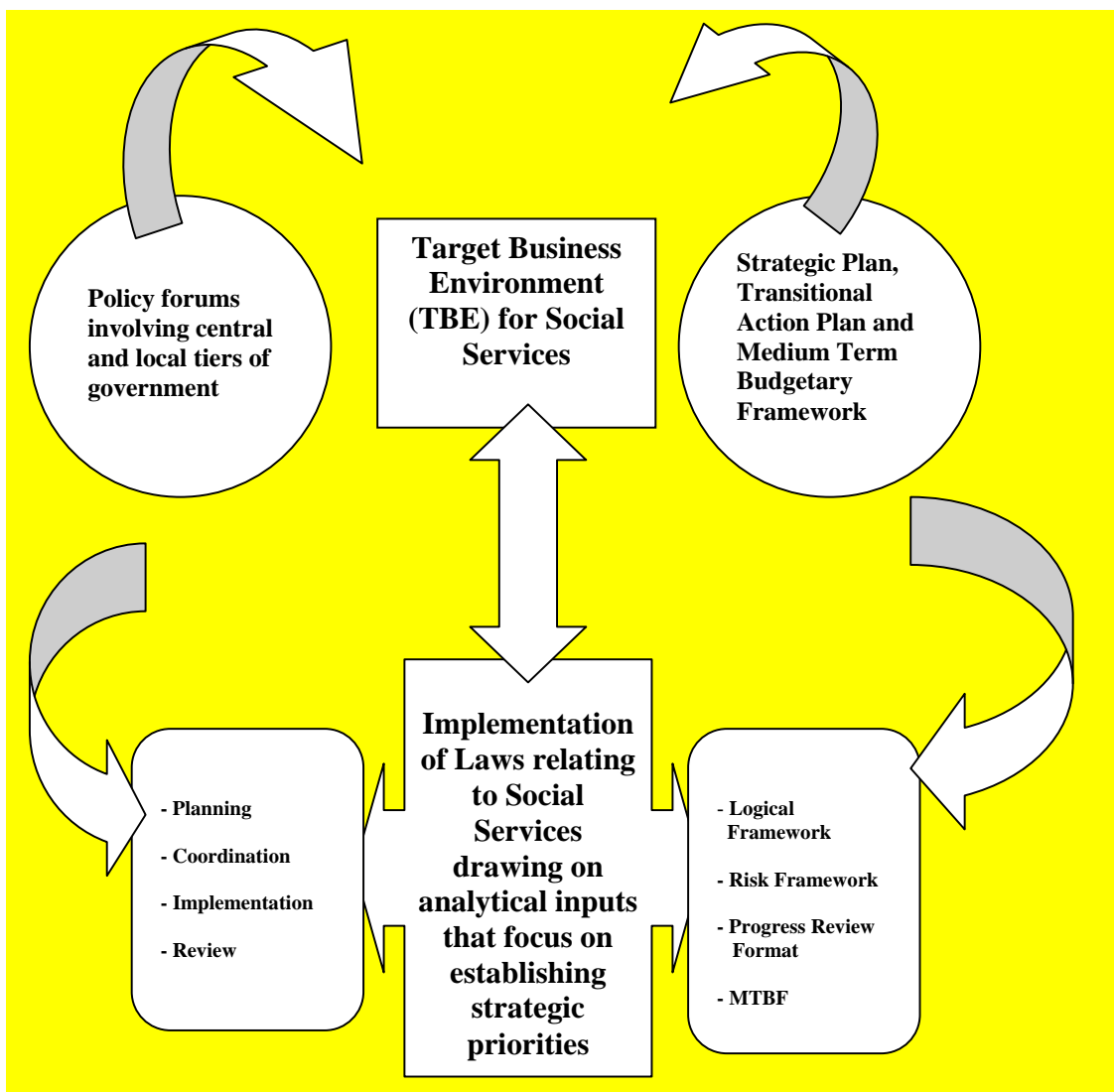
Objectives	Indicators	Means of Verification	Assumptions
Super Goal			
Goal			
Purpose			
Outputs			
Tasks		THEN	AND
IF			

Content of a Transition Action Plan

The TAP needs to be designed as a “compass” and reference document against which the GoU, can plan, benchmark and measure progress with regard to coordination and implementation of the new Law on Social Services. The TAP is not intended to replicate the work plan of the GAP, but the TAP will – of necessity – shed “illumination” on the medium term agenda that will need to be put in place to ensure that there is congruence between different, but complementary, outputs.

The diagram below provides an illustration of complementarities between organisational coordination structures, the Strategic Plan, the TAP, the MTBF and the Target Business Environment:

Diagram: 5.1.2: Complementarities for Strategic Planning



Risk Analysis

Risk analysis forms an essential component of Strategic Planning and the development of a TAP, and embraces three interrelated elements: *risk assessment* – which involves an assessment that estimates the chances of a specific set of events occurring and/or their potential consequences, *risk perception* – which is concerned with the psychological and emotional factors that have an impact on behaviour, and *risk management* – which is concerned with the development of strategies for reducing or mitigating factors that give rise to risks during the *transition period*. Within this framework a risk is defined as a factor that could adversely affect an outcome. There are three principle types of risks:

- Risks that arise from factors actually or potentially under the control of line Ministries with responsibility for social services [e.g. policy design, content of regulations, performance by staff];
- Risks that arise from factors in the wider policy and institutional environment, and which are only controlled by decision-makers elsewhere [e.g. policy making environments, institutional weaknesses, poor or inadequate allocation or resources, and lack of political will]; and
- Risks that are, essentially, uncontrollable [e.g. prices, political instability, inflation and interest rates].

In EU member states risk handling has become increasingly central to the business of reforming social services. Explicit risk analysis is a relatively recent phenomenon outside of certain specialised areas – like the insurance, pensions and banking – but in recent times risk has moved from being seen as a technical subject to being viewed as central to the process of managing and planning transitions in social services policy.

Once identified and assessed risks are amenable to being managed. The analysis of risk therefore needs to be seen as essential part of the TAP. Risk analysis involves identification, and systematic evaluation of all risk factors. Risk assessment is carried out during the planning stages and at key points during the implementation of tasks. Risk management is carried out continuously because: the risk environment or activity is constantly changing, objectives and priorities may change, and with them the consequences of importance of risks. Risk assessments therefore have to be regularly revisited and reconsidered to ensure they remain valid and will of necessity need to be incorporated in to the TAP review processes [see below].

After risk assessments have been undertaken, consideration should be given to how best to respond to the risks that have been identified. Broadly speaking responses can be managed in three ways:

- *Transfer*: for some risks, the best response may be to transfer them to another party. This might be done by supporting a third party to take the risk in an appropriate manner;

- *Tolerate*: The ability to do anything about some risks may be limited, or the costs of taking any action may be disproportionate to the potential benefit that will be gained. In these situations the response may be toleration; or
- *Manage*: By far the greatest number of risks will belong to a category that is amenable to being managed. The purpose of management is not to obviate the risk, but to mitigate the scope and scale of its impact, or contain it to an acceptable level.

Risk is not neutral, and is subject to judgements about the types of risk central and local tiers of government are prepared to be exposed to before judging that action is necessary – this is referred to as ‘Risk appetite’. Judgements about risk exposure are likely to be influenced by the level or resources available to either control or obviate the risk. This means that public value decisions – in terms of costs against the extent to which the risks may actually be realised - will have to be made. As a consequence, this means that against every output the ‘risk appetite’ has to be assessed. Decisions on how organisations plan to respond to identified risks have to include how much risk can be tolerated. Greater risks may be tolerated if greater benefits are expected from an activity. Ultimately, the risks to successful delivery of the TAP will need to be managed effectively to secure planned service improvements, and to retain trust and credibility in social services.

Appraisal and Evaluation

Good appraisal entails being clear about objectives, thinking about alternative ways of meeting them, estimating and presenting the costs and benefits of each potentially worthwhile option, and taking full account of associated risks. Good evaluation, after the event, entails many of the same demands together with a desire and willingness to look for better ways of doing things. Used appropriately, appraisal and evaluation lead to better decisions by politicians and civil servants involved with the reform of social services. They encourage both groups to question and justify what they do. They also provide a framework for rational thought about the use of limited public resources. Appraisal should not be seen merely as an obstacle through which proposals must pass in the final stages before implementation. It has to be built in to implementation of the Strategic Plan and TAP to enable reworking of actions and assumptions associated with each output, and to determine progress and plan options for future courses action.

Appraisal has to be part of establishing a wider business case for reforms, which should include not only an economic analysis but also include other important information such as financing implications, management arrangements and plans for subsequent monitoring and evaluation of outcomes from social services. An appraisal of any substance should indicate how the outputs contained in the logical framework of the TAP will be evaluated after completion and how the results of evaluation will be disseminated. Responsibilities and procedures for initiating, carrying out and vetting the appraisal process need to be clear in each central and local tier of government involved with the reform of social services.

Developing an appraisal is not a standard drill; it is a sensibly ordered, but flexible approach to the analysis of policy plans, progress with implementation, and the analysis of expenditure. Nevertheless an appraisal should normally, using the Strategic Plan and the logical framework of the TAP as reference points, follow the following sequence:

- Define objectives
- Consider the options
- Identify and quantify and where possible value the costs, benefits and risks associated with each output
- Analysis of information
- Present the results

The outcomes from appraisal will sometimes point to clear-cut recommendations for implementation, but often this will not be possible. There may risks attached to costs, benefits or both. There may be elements that cannot be valued in money terms, and some may not be easily quantified at all. Questions such as equity and equal opportunities, planning feasibility, prior commitments, implications for other parts of the economy, and policies under the jurisdiction of key line ministries [e.g.; MoLSP, MoH, MoES, MoFYS] and under the control of MoF and local tiers of government should all be covered to the extent that they are critical to the successful implementation of the Law on Social Services.

Appraisal and Evaluation: Strategic Review Reporting Format

The TAP will need to be reviewed at intermittent intervals by the policy forums and other key stakeholders. The interval between each review will need to be structured in accordance with the work plans of the policy forums – and linked to the development of the medium term budgetary framework.

Section 3: Preparation of Medium Term Budgetary Framework to Support the Law on Social Services

Definition and Purpose

A Medium Term Budgetary Framework [MTBF]⁷ is a multi-year public expenditure planning process used by EU member states to set out future budget requirements for existing services, and to assess the resource implications of future policies and new programmes. The MoF is considering the preparation of a Medium Term Expenditure Framework [MTEF]. However, developing and implementing a MTEF usually requires a stepped-approach delineated into the following stages: (i) developing a strategic approach

⁷ A Medium Term Budgetary Framework is the intermediate stage of budget planning, and is designed to complement the Medium Term Fiscal Framework [MTFF] – which focuses on fiscal policy objectives and medium term macro-economic and fiscal targets and projections [e.g., growth, inflation, and debt management]

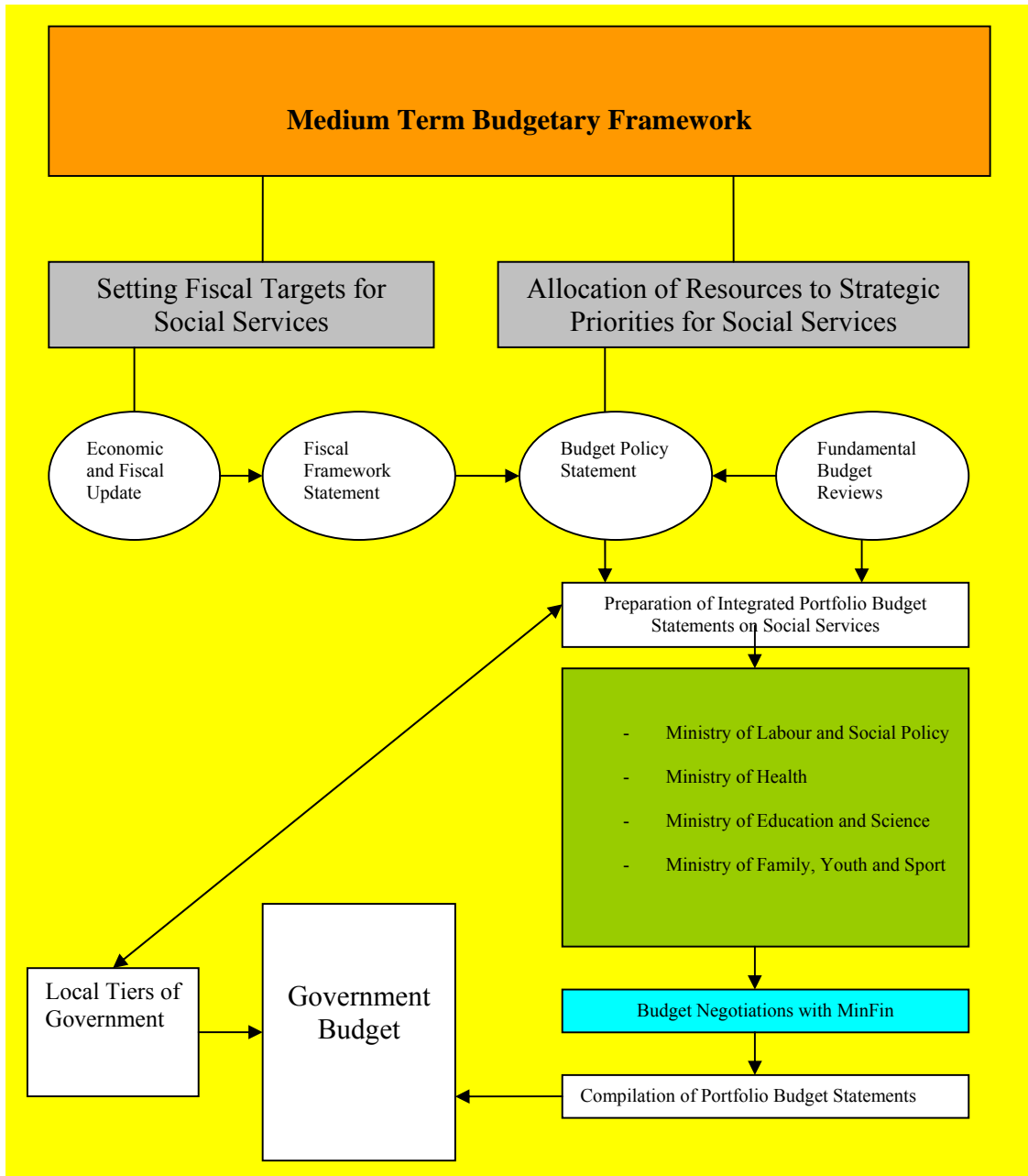
at the initial phase of budget preparation cycle – which will help frame the preparation of spending units' draft budgets; (ii) a Medium Term Fiscal Framework [MTFF] – which provides medium term aggregate fiscal objectives that need to be reflected in budget policy guidelines; and (iii) complementing the preceding phases with an aggregate Medium Term Budgetary Framework [MTBF] – which provides expenditure targets by Ministry or policy area. Practices used for the preparation of an MTBF vary between EU member states. However, key features of a 'model' MTBF that will be required to support implementation of the Law on Social Services are set out below:

- **MTBF should be realistic.** It should be set within a macroeconomic framework and coordinated by key line ministries and local tiers of government with the MoF. Best estimates of future resource levels are usually referred to as a 'resource envelope' – a term that can be applied at both programmatic and aggregate spending levels.
- **An MTBF takes a medium term perspective [usually 3 to 5 years].** The figure for year 1 (n+1) of an MTBF should always be the same as the annual budget. For the following years (n+2 and n+3) practices vary but in all cases the recurrent implications of existing commitments need to be projected throughout the planning period and the financial implications of any policy changes and new programmes included.
- **The MTBF is a rolling programme and therefore needs to be updated on an annual basis.** The annual budget is fixed and subject to 'hard budget constraints'. The figures projected for latter years are not seen as entitlements but as best estimates for planning purposes.
- **The MTBF should be based on realistic cost and revenue estimates.** This will involve the provision of contingencies to cover changes in economic circumstances such as changes in inflation rates, changes in unemployment levels, economic growth patterns, demographic changes, and new and contiguous policy commitments.
- **The MTBF should be presented in sufficient detail** to allow broad judgements to be made as to the appropriateness of the proposed allocation of resources and its consistency with stated policies.

In summary, a MTBF is a transparent planning and budget formulation process within which policy forums can advise the GoU and establish a credible mechanism for allocating public resources to support implementation of the Law on Social Services and USIF while at the same time ensuring overall fiscal discipline. The process entails two main objectives: the first aims at setting fiscal targets, the second aims at allocating resources to strategic objectives and priorities within these targets. Diagram 5.1.3 below provides an illustration of the institutional **flows** that need to be considered in the preparation of a MTBF designed to support implementation of the Law on Social

Services and related legislation, promote a positive rate of return on the social services sub-component of USIF, and streamline or reduce the use of residential institutions that fall under the legislative/administrative remits of various line Ministries.

Diagram 5.1.3 Institutional flows for MTBF for Social Services



Linking the Strategic Plan, the TAP and Budget Resource Planning

The MTBF cannot be achieved without the direction from the Strategic Plan and the TAP. The rationale for creating an MTBF for social services is based on the diverse number of central and local tiers of government involved in the implementation of the Law on Social Services and achieving the policy goals of the GAP. Hence *vertical* and *horizontal* structures between these organisations will need to be coordinated and their respective budgets aligned to ensure that realistic policy goals are achieved. The MTBF will need to consist of top-down estimates of aggregate resources available for public expenditure on social services, and ensure that the estimates are consistent with macro-economic stability; and bottom-up estimates of the cost of implementing policy. It is called “medium term” because it provides data on a prospective basis, for the budget year (n+1) and for the following years (n+2 and n+3). The MTBF is a rolling process repeated every year and aims to reduce the imbalance between what is affordable and what is demanded by organisations. The MTBF does this by bringing together policy-making, planning and budgeting early in the budget cycle, with adjustments taking place as policy is rolled out and implemented. A well-designed MTBF for social services should:

- Link GAP priorities for social services with a budget within a sustainable spending envelope;
- Highlight the trade-offs between competing demands on policies towards social services and emphasise the Balance of Service Provision approach;
- Link budgets with policy decisions made; and
- Improve outcomes by increasing transparency, accountability and predictability of funding – including reducing the growing tendency towards the use of targeted subventions from the state budget to fund social services.

For the MTBF to work the *core* and *supporting* processes delineated in Table 5.1.4 below will need to be considered by the policy forum:

Table 5.1.4 MTBF Features for Social Services:

Core Processes	Supporting Processes	Purpose
Define the aggregate resources available for implementation of the Law on Social Services and related legislation	Central and local tiers of government define data requirements to determine resource requirements, and review incentives within equalisation transfers used to determine allocations to both residential and community-based social services	To provide a realistic estimate of the total resources available in the medium term to allocate on spending to support the reform of social services in accordance with the GAP
Formulate and cost specific spending plans based on the Strategic Plan and TAP	Central and local tiers of government formulate specific expenditure programmes aimed at social services	To show specific objectives, programmes, tasks and their costs and how they will foster and generate public value.
Reconcile available resources	Assessment of top-down	To reach agreement on the

with specific spending plans	spending constraints and bottom-up spending demands	medium term expenditure of different social service programmes
Set Medium Term Allocations	On the basis of relevant data resources are allocated against specific outputs in the logical framework of the TAP	To communicate to staff an expenditure policy constrained by aggregate resources
Specific expenditure limits for year one of the MTBF [e.g. allocations to social services based on considerations of allocative efficiency between residential and community-based social services for different client groups] are established	Formulation of annual budget for social services	To ensure that budgets for the social services prepared by central and local tiers of government reflect agreed expenditure levels and allocative efficiency criteria
Ensure that budget execution is in line with budget intentions	Accounting, reporting and expenditure controls are used during the execution of the annual budgets allocated to social services	To prevent excessive deviation from annual budget and MTBF
Ensure that the desired results are achieved in line with Strategic Plan and TAP	Incentives for staff in Accounting Chamber, CID, and line Ministries to perform ex-post audit and evaluation on social services policy	To align incentives with public value towards social services

The absence of effective links between the Strategic Plan, the TAP and the budgeting process has – in the experience of most EU member states – been the single most important factor contributing to poor outcomes at both strategic and operational levels of social services reform. In the past the decision-support systems were fragmented with policy-making, planning and budgeting taking place independently of each other. Other factors that contributed to poor policy outcomes in EU member states included: the unpredictability of funding from one year to the next within the budget; a failure to target resources at policy priorities – in part because budgeting was treated as an annual funding exercise, and not as a policy-based exercise; the absence of appropriate level of delegated authority for the management of resources; and short-term planning for annual budgets and hand-to-mouth adjustments during the budget year which lead to accumulated over commitments. To avoid these pitfalls it is essential that the development of a MTBF for the social services is fully integrated with key policy instruments of the Government [see Chapter 3, Table 3.1] and the annual Budget Law, and draws on the technical assistance being advanced by the World Bank under the rubric of the US\$65 million *Public Finance Modernisation Project* – which focuses on the development of an integrated public finance management system, and strengthening institutional capacity in the MoF.

Chapter 5.2 Costing and Budgeting for Social Services:

The Importance of Unit Costs and Developing a Framework Model for Application in the Ukraine

Introduction

The development of unit costs for social services, as part of developing an alternative to the dominant use of residential services, is primarily designed to reflect the perspective of the client and allow staff and agencies to see how clients (children and families, elderly people, people with disabilities, and other groups) are supported and at what cost. Currently the calculation of unit costs for social services is inadequate and focuses only on wages, utility and capital costs to the exclusion of management and administration, staff training etc [See Chapter 3]. The Law on Social Services is designed to diversify support to clients in a variety of ways through the work of social workers, administrative staff, foster carers, home care workers, and other support staff. In order to discover how much will be spent on meeting the needs of an individual client, it is essential to measure how much is spent on meeting the needs of an individual client in a residential or community-based social service setting. The Government therefore needs to measure how much of each service a client receives, then work out the cost of each amount before adding everything together. This approach will help set the framework for establishing realistic budgets and equalisation transfers [see Chapter 5.3] for the provision of social services.

Once it is established how much an hour of social worker time costs [lets call it **x**] and once it is known, for example, that in a given week a particular client [e.g. a child placed in foster care] receives six hours of attention, then the costs of the social work contribution of meeting the child's needs during the week would be:

x times 6 hours

If, in addition, the client [for example a child placed in foster care] receives foster care/home care for 5 days a week the cost per day of the foster care is **y**, the cost of foster care is:

y times 5

x and **y** are unit costs expressed in terms of service per hour or day. If the child receives no other services then the total weekly cost of the service for the child will be:

[**x** times 6] plus [**y** times 5]

The algebra is rather crude but it nevertheless helps describe the relationship between a client's needs [in this case a child in foster care], services and costs. The harder part is calculating accurate values for **x** and **y**. The real cost associated with a social worker visiting a client is much more than a proportion of an individual salary plus essential 'on-

costs' such pension contributions and other payroll taxes. It must include the cost of administrative staff, a share of maintaining an office and managing a department and so on. When comparing costs and services, it would not be sensible to argue that one team of social workers is cheaper than another despite having the same number of social workers, if the costs of one but not the other included an allocation for administrative staff, training, travel and so on.

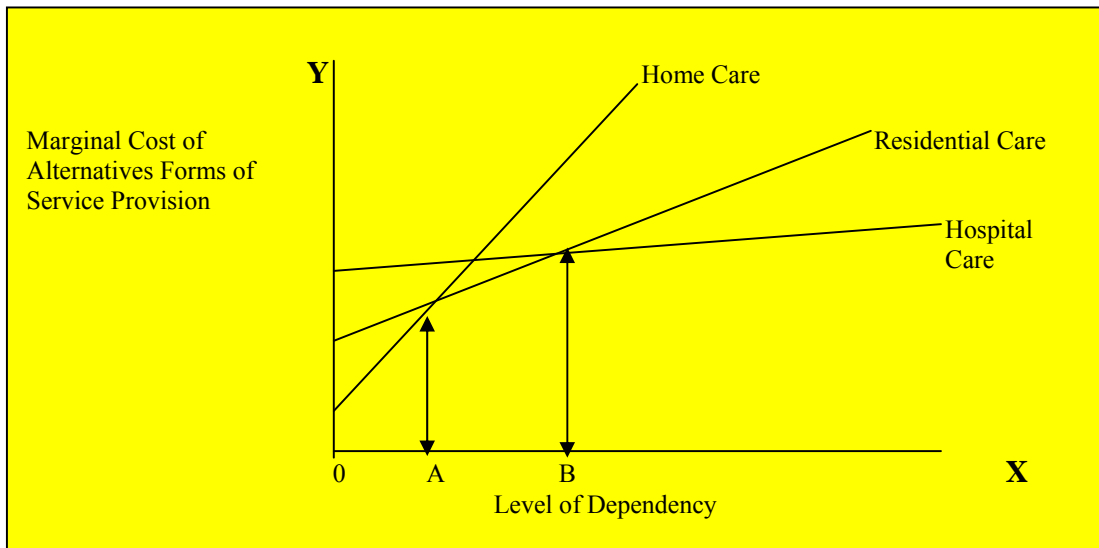
The secret of accurate cost calculation involves knowing how to take account of the various components of an hour of social workers time or a day of residential care. This is always likely to be an imperfect science, but the more accurate all the expenditure categories that contribute to a service are acknowledged the closer the understanding of the real costs and a more fully rounded knowledge of all that providing community-based social services – for children, the elderly, and the disabled – entails. The focus on unit costs is therefore important for elaborating GAP and the Law on Social Services for three reasons:

- Identifying and assessing the overheads incurred in the delivery of residential and community-based social services: for example, direct management, departmental support and central services from Oblasts, rayons, and city departments;
- Identifying the costs that need to be incorporated into the prices that need to be used in the development and definition of contracts for the delivery of social services by non-governmental organisations [NGOs] or private sector service providers.
- The need to introduce a *Balance of Service Provision* model to guide and inform the range and mix of social services required to meet a range of client needs, and to assess the relationship between unit costs, marginal costs, and client need in the context of meeting policy goals.

Piecing Together the Bigger Picture: Establishing a Balance of Service Provision

The focus on unit costs reflects a common desire of the Government of Ukraine to improve - cost effectiveness, public value, and improve client outcomes – with a need to focus on identifying different ways of achieving the same level of benefit to clients at least cost to public finances. Indeed, the *Balance of Service* model became a defining characteristic that has underpinned the reform of social services in EU member states. Diagrams 5.2.1 and 5.2.2 below provide an **illustration** of how the *Balance of Service* model can be applied to services for the elderly and services for children:

Diagram 5.2.1: Balance of Service Provision – Elderly Services

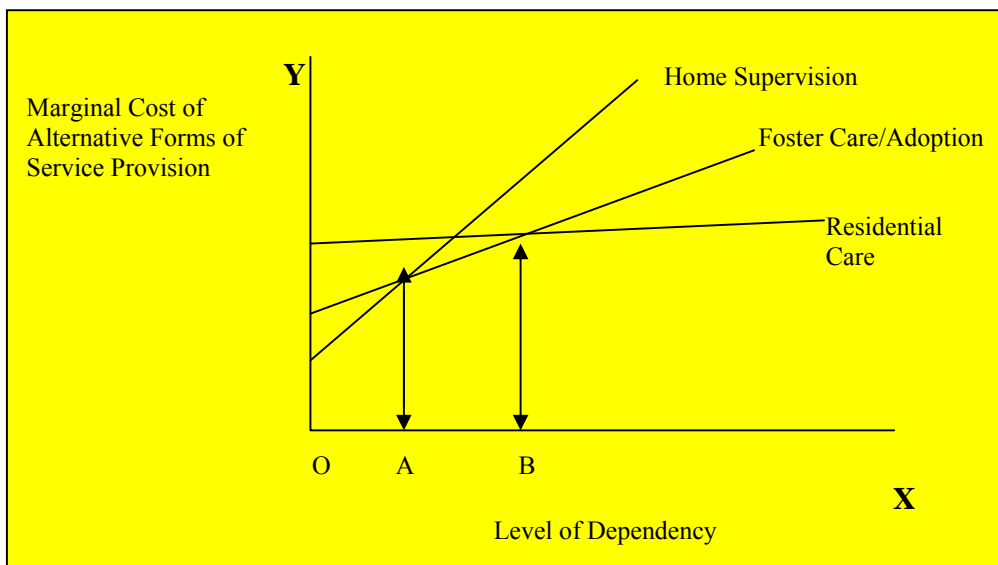


Along the horizontal axis (**X**) are measured some of the characteristics of elderly people that lead to their being in need of social services, such as their level of dependency: characteristics that lead to an increasing cost of care as they become more severe and are unable to look after themselves. Along the vertical axis (**Y**) are measured the marginal costs of alternative forms care such as hospital, residential or home care [domiciliary care]. The costs are necessary for the elderly person concerned to achieve a given level of functioning: for instance to perform [or be assisted to perform] the tasks necessary for daily living.

The task of choosing the most efficient form of care for an elderly person is straightforward: the form of care with the lowest marginal cost is picked in each case. Thus in the diagram if the elderly person concerned has a degree of dependency in the range *OA*, then the most cost-effective mode of care is home care; for those in the range of *AB* the most cost-effective mode is residential care; and for the range B and beyond it is hospital care.

The *Balance of Service* model is used in EU member states to cover other client groups – e.g. children, people with disability, the chronically ill etc. For example, the modes of service provision for children at risk and in need of protection could be: home under supervision of social services, foster care/adoption, or residential care. Diagram 5.2.2 below provides an **illustration**.

Diagram 5.2.2: Balance of Service Provision – Children’s Services



The *Balance of Service* model – with its emphasis on achieving improved cost effectiveness, diversifying service provision, and improving client outcomes set the institutional framework for the **Commissioning-Provider** [See Chapter 5.1] arrangement for social services that splits the financing, commissioning and management of social services from the provision of social services. The objective of this new organisational arrangement was to ensure that the government departments focus on the development of strategic policy directions, defining unit costs of different types of services, assessing marginal costs¹, the effective management of public finances, and an independent system of inspection quality assurance; while a diverse range of organisations [including government organisations, not for profit non-government organisations, and for-profit enterprises] were contracted - by central and local government agencies - to actually provide a diverse and innovative range of social services that reflected changes in demographic trends, changes in the diverse range of socio-economic problems confronting society, and the need generate public value by shifting away from the imbalance generated by over reliance on expensive – and often inefficient - residential service provision..

Assessing and evaluating unit costs within a *Balance of Service* model for social services is important when a clearer picture is required on total expenditure in particular areas of

¹ Marginal costs are the addition to the total cost of a service needed to take account of each extra client. Thus broadening service provision to encompass a variety of non-residential services may entail hiring new staff to provide the services. This would add a great deal total cost since it would include salary costs, administrative costs, travel costs and even extra office and utility costs. Residential services, on the other hand, tend to have fixed and variable costs that do not alter significantly with the quantity of service produced. Thus the marginal costs for non-residential services may tend to be higher than residential services at a particular level of service output (Byford et. al. 2003)

service provision. It is also useful for estimating unit cost performance indicators – i.e. ensuring the scope of activities included in the indicators is the same in all Oblasts thus making it easier to compare them – see Table 5.2.1 below for an illustrative of the way costs and unit estimations should be structured for a social worker providing community-based services:

Table 5.2.1: Unit Cost Estimations – An Illustration

Costs and Unit Estimation	Value (Base Year X)	Notes
Wages and Salary	Value in year X	Information will need to be generated from a workforce survey based on a cross-section of Oblasts, Cities and Rayons. The value attributed to wages and salary should be the midpoint between the average minimum and the average maximum salary/wage cost.
Salary on costs	Value in year X	Employers contribution to pension and other payroll taxes
Overheads	Value in year X	Information will need to be based on establishing a proportion of the salary costs attributed for management and administrative overheads. Such information will need to be developed on the basis of a cohort study of management and administrative costs attributed to a single social worker
Capital Overheads	Value in year X	This will need to be based on a proportion of building maintenance/utility costs; and administrative/clerical support costs
Travel and Miscellaneous	Value in year X	Cost of using a private car or public transport to visit clients
Working Time	Number of weeks per year, and hours per week	This should include allowances for annual leave and statutory leave days (such as public holidays). It will also need to make assumptions about sickness days and study/training days
Direct client contact	Number of hours spent with individual clients per week (e.g. 1 hour per client per week)	This calculation will need to separate a social workers time spent in direct time on client related activities, which allows an hour spent on client-related activities to be costed. This is not the same as the cost per hour spent with a client.

Unit costs estimations can be made for many purposes, but certain principles will apply whatever the context:

- They should be inclusive;
- They should tally with service use but be capable of aggregation;

- They should reflect long-run marginal opportunity costs²; and
- The data should be up-to-date.

These principles are elaborated below:

Inclusive

Unit cost calculations should include the financial implications of all the components of a service such as staffing, utilities and maintenance. There will be some support from the organisation(s) providing it, such as a management, payroll or administration. This is the gross total cost to the agency. Contributions from other agencies or budgets require attention too; a service may be jointly funded by a labour and social protection department and the education department or the user may pay a fee or charge.

Tally with way services are used

One client is unlikely to use the whole social work team for a whole week. A team will usually provide support for a group of clients and each client may see one social worker for only an hour or two. Similarly a client in a residential care institution will be one of group using the particular services – e.g.; a recreational facility. So unit costs need to be sensitive to how people use services and be specific to the activity that each entails. This is similar to the measurement of hospital care that is measured in bed-days [i.e. the number of days a patient spends in hospital], so residential care can be measured in days or weeks. However, this service ‘intensity measure’ is not appropriate for community-based social services; one hour or one contact between social worker and client is more appropriate.

Aggregation

For many purposes – particularly for an economic evaluation – the estimation of unit costs is only the first step. While it is intuitively right to measure service use and costs for individual clients – because this is how services in community-based social services are provided - the data will need to be added together to make it easier to understand or to inform decision-making. For example, a series of case studies describing a particular group of client’s situations [e.g.; children in need of foster care, or elderly persons in need of home care] and the costs associated with the support they receive over time and from different services or agencies [e.g. labour and social protection, family, youth and sports, education, health] can highlight important issues. If data can be collected for a large enough group of young people, it should be possible to explore the variation in their social services costs and to examine the relationship between needs, activity in response to needs, costs and outcomes. Aggregation of costs data can then, usually quite easily, be constructed for particular groups by age, gender, needs etc.

² An opportunity cost is the value of the alternative use of assets that have been tied-up in the production of a service.

Opportunity Costs:

Deciding whether to take a short-term or long-term view is a crucial step when estimating costs. A 'marginal cost' is the cost of supporting one extra client and may be calculated from either perspective, but in social services short run estimations are rarely appropriate because they carry with them the implication that more people could always be supported using existing resources. In other words, a policy based on short-run costs would give the impression that however many extra clients require support the current set of services has the capacity to support them. Short-run marginal costs estimated for a residential institution would show the extra costs per resident – perhaps only extra meals, a locker for their belongings etc. But suppose the residential institution is nearly full; there must be a limit to how many 'extra' clients can be squeezed in to the institution. An extra five or six would seriously compromise the quality of care and extra demands on staff.

Long-run marginal cost estimation recognises the financial implications of necessary expansions. Since more is known about the present than the future, it is conventional to approximate long-run marginal costs using short-run averages that include all revenue elements as well as costs of building and equipment (capital) and overheads such as management, personnel or administration.

The need for cost information stems from the imperative to choose between alternatives. Resources are scarce: so should the Government of Ukraine provide new residential institutions or should it provide support services to help people in their home environments? Either way, the Government will have foregone benefits [lost opportunity] of the next best alternative. Choosing to have more residential care institutions will mean that more children, elderly and disabled people are looked after at the state's expense; but there will be no improvement in enabling people to be supported in the community with the opportunity to lead/maintain as normal life as possible.

Thus the opportunity cost will reflect the resource implications of opportunities foregone rather than the amounts spent. Estimating a unit cost for **volunteers** provides another good example. The cost to social services departments of using volunteer labour might include recruitment, training and on-going travel expenses. However, these payments do not recompense volunteers for the time they spend on social services tasks such as driving a mini-bus or escorting clients to the hospital or recreation centre. The volunteers might also give up other activities such as paid employment or leisure – the benefits foregone by using their time as a volunteer. So the amount of money volunteers receive in expenses does not indicate the full or social value of their input.

Cost Data

Unit cost information should apply to the period in which the policy is to be implemented or the service used. Too much delay and services may change making the cost data irrelevant.

Inflation indices are useful if the original information on which unit costs are based is more than a year old but the correct index must be chosen, because service costs often rise at different rates. For example, annual pay and prices for hospital based care for elderly people may rise at different rate than for community based services for the same group of clients.

Top-Down or Bottom-Up

There are two approaches to estimating unit costs: one known as top-down, the other as bottom-up. The top down approach assembles all relevant expenditure and divides it by units of activity. The bottom-up approach identifies the different resources tied-up in the delivery of the service and assigns a value to each. The sum of these values, linked appropriately to the unit of activity, is the unit cost of the service.

The top-down approach has the virtue of being relatively simple to apply, and can easily be used as a starting point in discussions about the costs incurred by lower tiers of government [e.g. Oblasts, Cities, Rayons] in the provision of services. It can be very helpful where units of activity can be consistently measured and allocated to expenditure because changes in estimated costs can provide a helpful management tool in monitoring changes in performance and efficiency. However, particularly when making comparisons across different organisations [e.g.; residential services that fall under the legislative and administrative mandates of the MoLSP, MoH, MoES, MoFYS] it may be difficult to ensure consistency of definitions or that all relevant expenditure is identified.

The value of the bottom-up approach lies in the fact that those applying it must grapple with the detail of every element of a service. Consequently, it encourages a good understanding of the services being costed and careful consideration of the relationship between patterns of work in an organisation and the way services are delivered. Bottom-up estimates are far less straightforward to produce than top-down costs, but once assembled are more versatile. They can be used to show where variations in cost are occurring and they can be adjusted to reflect planned changes. Thus for most purposes a bottom-up approach to unit cost estimation is better.

Developing a Costing Model for Social Services:

The development of a costing model for community-based social services needs to be based on a building block approach that incorporates four stages:

- **Description** – the ingredients of the service
- **Identification** – the activities and unit of measurement
- **Estimation** – the cost implications of service elements
- **Calculation** – the unit cost

This section describes each of the four stages that need to be integrated into the model for the development of unit costs by the Government of Ukraine.

Description

Clear description is an important starting point because it helps to ensure that a cost is included for every aspect of a social service. This requires listing items such as building use, the number, salary grade, and working hours of staff in different professions and roles, as well as office services, and travel arrangements. In the process it should be possible to identify what might be called ‘hidden costs’, such as some expenses paid directly by other agencies.

Expenditure accounts are an ideal basis for service cost estimations, but the variation between the organisation and accounting practices of local government agencies or other service providers means that different elements will need to be included under, or excluded from, ‘cost centre’ headings. It is therefore doubly important to describe the service in detail, so that completeness of the financial data can be assessed. Accurate description has the further advantage of bringing to light aspects of a service that appear to have no cost – e.g.; might be the provision of a building rent-free to a non-government organisation. Volunteers often appear to be a free resource, but over and above the costs of their training and expenses, there is an opportunity cost to the volunteer.

Identification

The aim here is to list everything that a service does and to decide upon a unit of measurement that will make it possible to calculate unit costs. For some services, identifying a unit of measurement is a relatively simple matter. For example, young people usually stay in residential care for a certain number of weeks and elderly people, in receipt of home care services, receive these services for a specific number of weekly sessions. Each will have a set number of places and there will often be a capacity indicator [100 per cent capacity indicates there are no spare places]. These are obvious examples of service outputs and provide a logical unit of measurement.

In other cases, facilities that appear to be one thing may actually be responsible for a range of activities: for example, a residential institution may also provide day care for non-residents. Unless these other activities are carefully described and joint costs allocated to them, the ‘per bed’ cost of the residential home will look far more expensive than is actually the case.

For some facility-based services separating the strands will be more complicated still. For example, a family centre [which provides support to families with children in difficulty] may provide day care for children, while at the same time taking referrals from other agencies and providing a range of recreational facilities to the wider community. Thus taking account for these multi-purpose type service centres may require a number of different units of measurement – one for each element.

A similar challenge may be posed by community-based services [peripatetic services] which can be defined as those social services delivered by a single member of staff [who often works as part of team] to individual clients or groups of clients. These clients may be

seen at the office of the team but peripatetic staff will also travel to their homes or to other locations [e.g. a hospital, a residential home, or a foster home]. Social workers, or home support staff from Territorial Centres, are the most common example and the most obvious unit of measurement is an hour of social work time. However, many other types of activity apart from face-to-face contact with clients contribute to their workload, for example contact with other professionals, writing-up case notes, planning meetings, or travelling to appointments. Thus, productive work hours [that is hours that a member of staff is contracted to work] will often be less an appropriate measure than a unit – often referred to as ‘client contact’ – adjusted to reflect time spent on all activities that support face-to-face contact.

It is important to establish an accurate activity measure [numerator of unit cost] as it is to get the total cost figure [denominator of unit cost] right – because without this information it is difficult to determine the unit costs that should constitute the basis for setting the prices and contracting social services to NGOs or other service providers; and for establishing the budgets that appropriate for services delivered by government agencies. Consistency is obviously vital if unit cost indicators are to be compared across Oblasts or between service providers. It is usually possible to assemble a picture of how much of which services each client [e.g. children, elderly and disabled people] uses over a given period, to calculate the unit costs and then to extrapolate the result to find the total cost of providing social services.

Estimation

This stage is likely to be time-consuming, not least because of difficulties in obtaining service-specific information. Departments that provide services may be reluctant to explain how their budgets are spent, lack the data, or be reluctant to explain costs for innovative social services. Under these conditions explaining the rationale and purpose of assessing unit costs with financial officials and managers cannot be overstressed; the more closely the departments/agencies providing services are involved in the estimations, the more accurate the results.

The possibility that a department or agencies’ financial systems may not be set up in a way that readily meets the needs of a unit cost analysis and may not be able to generate the data required gives reason for allowing plenty of time for this stage of assessment. In addition, costs data obtained from the providers of social services need to be up-to-date, but this requirement may not fit with the financial cycle. However, in Oblasts, cities and rayons, cost centre accounting practices can make the task easier, because financial managers are currently provided with monthly updates of a social services’ expenditure against the budget. However, for other expenditure components, particularly those treated as internal recharges [e.g., when debits take the form of payments or transfers within a department], the budget may differ considerably from the figures calculated at the end of the financial year.

Calculate

Once all the information has been collected it will need to be adjusted to ensure that all the service elements have been included and that each component is treated appropriately. For example, the running costs associated with a residential institution [such as staff costs or utilities] are recurrent expenditures and are usually presented annually, but a building in which a service is located is usually intended to last longer than a year and so represents a long-term investment. However, the calculation of unit costs will be easier if long-term investments can be represented in a form commensurate with revenue costs, so allowing total costs to be described as a single amount. The convention for calculating the opportunity costs of capital provides one such solution. For example, it could be assumed the best alternative use of capital would be to invest it to earn interest over an equivalent lifetime of say 60 years. The opportunity cost of capital is therefore calculated as the constant stream of cash payments, or annuity that will deplete the lump sum over the lifetime of the building.

Like much else, information on capital costs may be presented in different ways by different tiers of local government, but it is important that depreciation figures for items that diminish in value over their lifetime – for example furniture or computer equipment. Thus it is essential to employ the most appropriate figure. The final task is to make a careful amalgamation of the information from the *identification* and *estimation* stages of the model. The aim is to calculate a relevant unit cost for each service or activity with a particular type of social service as the best estimation of the long-run marginal cost. This can be achieved by adjusting the total cost of the service to reflect the unit(s) of measurement identified. It is expected that clients supported by social services will use more than one service [e.g. an elderly person may use home care and recreational facilities, or a child in need of care and protection may use a foster home and psychiatric/counselling support]. To be able to assemble a total cost of support for each client, their use of different services needs to be recorded, then a unit cost estimated for each service and the figure adjusted to reflect the frequency and duration of use by each client. An illustration is given in the box below:

Calculating Unit Costs though Frequency and Duration of Care

A 15 year old was considered for admission into a residential institution managed by the Oblast Health Department. She spent nine months in a residential institution, followed by a one year placement in a foster home secured through the Department for Family and Youth. She was pregnant and had not attended school for a year prior to her admission into residential care, and did not want to live with her family. During her time in the residential institution and in the foster home she saw three successive social workers for an average of 1 hour each week, and also attended a mental health institution. She saw a doctor and attended the antenatal clinic prior to giving birth to a healthy baby boy.

The social and medical commission met to decide on service requirements that would meet her needs; a social worker assessed the foster carers and the girl's suitability for foster placement; the staff in the residential institution provided her with services for 9 months; and the foster home provided her with a service for 1 year. The girl was not able to look after the baby and the baby was put up for adoption. The social worker and the courts had to sort out the baby's adoption.

Using information on the *frequency* and *duration* with which these support services were used it should be possible to estimate the total costs of care for this client over the 19 month period, and to determine who absorbed particular costs.

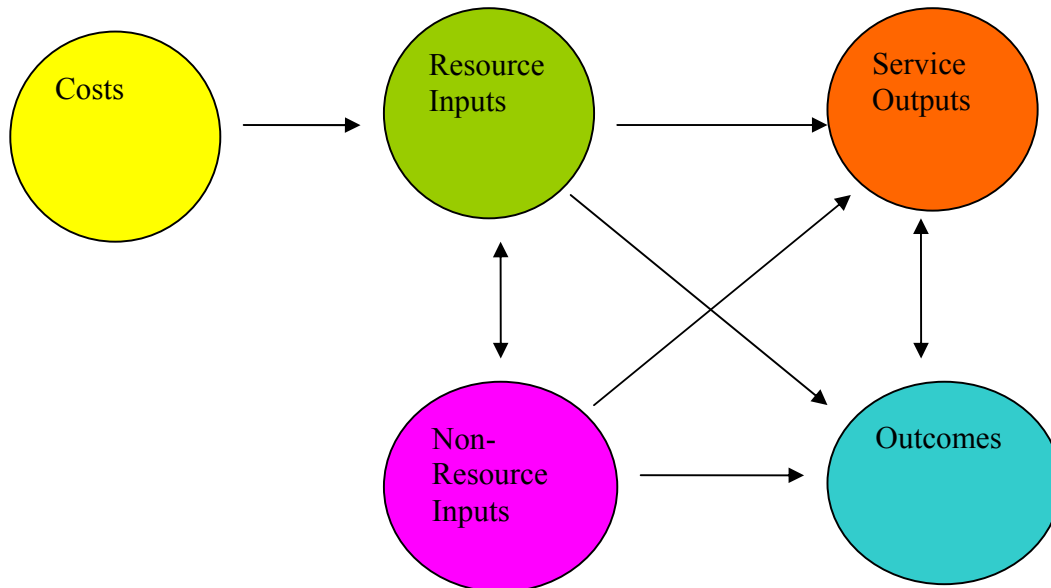
Costs and Economic Evaluation

The outline of a model for assessing unit costs has so far only touched on some aspects of the methodology. This section takes the analysis a little deeper and suggests ways of measuring what at first glance might be thought to be not amenable to measurement. As described this far, the cost linkages might be represented in the following form:



However, the Law on Social Services is not only concerned with service activity. It is also primarily concerned with having an impact on the lives of clients and their families. The aim is to improve their welfare – through measures that will reduce social isolation

and social exclusion, improve relationships, and promote physical and social well-being. Diagrammatically this more human picture of social services can be presented in the following form:



This representation is known as the **production of welfare model** which can be summarised in the following manner: the *resource inputs* are the labour and buildings and equipment [capital], which comprise the social service and can be summarised in monetary terms as costs. The intermediate *outputs* [i.e.; the level of activity generated by a service] can be measured as the level of provision, turnover, or volume of services provided. *Non-resource inputs* are less easy to measure but help explain vital differences between ostensibly similar services. They can include the social features of the care environment and the characteristics, personalities and attitudes of managers, staff and clients. The *outcomes* of the system are changes in the welfare of clients and their families [e.g.; less isolation, better life prospects, less exclusion, less poverty]. Maintaining a focus on individuals' means that the system of social services delivery is less likely to forget that different clients will respond differently, even if they receive similar combinations of resource inputs.

The production of welfare model underpins much economic evaluation of social services. It provides a structure, explanation, justification and clarification for why certain data needs to be collected and certain types of analysis undertaken and it can help policy makers, managers and staff to interpret results more sensibly. Given that the components are well defined, the links that can sensibly be made between them can also be indicated. For example, there is an obvious causal link between resource inputs [summarised by costs] and the final outcomes [or products] of the social services provided to different groups of clients, but this relationship will be mediated by the intermediate outputs and the different combinations of non-resource inputs.

A General Application for Estimating Unit Costs: Piloting

Developing a framework for assessing unit costs is critical for ensuring that community-based social services are appropriately assessed for costs and financed - in a manner that generates their long-term sustainability - as part of a *Balance of Service* framework that reduces over-reliance on residential provision. The development of the framework will require the establishment of a **National Social Services Inventory** [NSSI] database across all Oblasts, Cities and Rayons [see Chapter 5.3 for elaboration of data bases]. The NSSI database will – over the longer term – need to be delineated across particular settings and for particular groups of clients [e.g.; elderly people, people with disabilities, and families and children]. Many Oblasts may be a little dismayed at the prospect of developing a data base of this nature which would have to be co-ordinated across all key line Ministries that have legislative responsibilities for social services, and the MinFin which has financial responsibility for approving local level budgets. However, the data base would not have to be developed in one go, and could be piloted across a number of select client groups, or at particular services – such as those provided by youth and family teams and/or territorial centres - in a number of pilot Oblasts, cities and rayons.

A NSSI database would be more than just a data collection system, it would offer different tiers of government:

- the opportunity to collate information for the NSSI on a consistent basis and in way that will enable the data to be used to establish the unit costs of social services;
- the framework for assisting with the establishment of a framework for pricing services that need to be contracted out to Non-Government Organisations and other service providers;
- the opportunity to establish efficient systems for the management of local social services, and nationally for policy and monitoring purposes; and
- the opportunity to experiment with the development of standards based on unit costs, as opposed to a system based on norms which are not based on economic criteria.

Ensuring consistency across Oblasts, cities and rayons in the way information is defined and recorded will present a major challenge. Indeed, the cost aspect of collecting this data will be no exception, because of the impact on any economic exercise of the enormous variation in financial and organisational structures. Indeed, once formal commissioning structures are established, alongside contracting arrangements, for the delivery of community-based social services the systems for providing of services will further complicate matters. Hence it is essential that a start is made on developing a NSSI database prior to the formal implementation of a commissioning and providing system for different types of social services. To overcome some of these obstacles, or at least to mitigate their effects, the comprehensive method described above has been simplified, and the steps and formats outlined below should be seen as a springboard

from which to move towards greater accuracy in assessing costs and using this data to improve budget preparations for the delivery of social services.

An important objective will be to ensure that the cost data reflects the same expenditure elements and so the steps and formats lay down some acceptable ground rules for allocating and apportioning expenditure to service settings. The interests of the client are paramount in the NSSI. This is because it is essential to know the costs associated with each client's use of each service, and because the objective is to enhance the effectiveness of social services in accordance with the Law on Social Services.

Cost Collecting: Step-by-Step

This section describes the methods that should be used in the first year of establishing a NSSI data collection system. To help the process along, templates to help different tiers of government *calculate* the costs of existing services and *estimate* the costs of new and innovative services. The templates should enable most local tiers of government build up unit costs for the bulk of the services they currently, or in future will, provide. Sometimes the cost of providing a service to different client groups will be made up of actual payments plus a component of averaged or apportioned costs. This will be the case with foster care, where daily placement costs will consist of actual [daily] allowances paid to foster carers plus a cost of the share of the costs of the social work teams that are assigned responsibility for foster care services.

The aim, in the preliminary stages, will be to allocate as much of the actual costs of social services as possible to service settings [e.g.; residential institution, foster care, home care etc] and incorporate the costs of management and service delivery staff. This needs to be done in order to arrive at a unit cost that is then linked via hours of service to individual clients. In order to achieve this objective a method of deciding what services to include in each costing will be needed. The task is likely to be difficult because of weak accounting practices currently used to for social services, the differences between Oblasts and by the fact that different terminology is used for the same function in different Oblasts. However, if the steps outlined below are followed it should be possible to iron out any difficulties during the pilot process, and reach a reasonable level of consistency, before rolling the NSSI database nationwide.

No Need to Seek Perfection but Focus on Planning and Co-ordination

Although a degree of accuracy is required absolute accuracy is not expected nor required. The task will, however, require that:

- A NSSI data base project group is set up – the group should be comprised of professional managers with responsibility for social services, information specialists, and financial personnel;
- That appropriate time is given to undertaking the estimation of unit costs – avoid quick or hasty judgements about data collection;

- Use is made of the existing accounting system – and use the data that currently exist;
- All expenditures should be measured gross;
- Ensure that the cost calculations include all the items outlined in the templates;
- Costs data should be as up-to-date as possible;
- The unit cost must reflect the way clients and their families use each social service – but the data must also be capable of aggregation to show costs for different groups of clients or service types; and
- The unit cost estimates from existing services should be used to make judgements about the likely [estimated] unit costs of new and innovative community-based social services.

Steps in the Process of Unit Cost Calculation

The table 5.2.2 below provides an overview, based on the preceding sections of this chapter, of the relationship between the *Steps*, the *Tasks*, the *Focus* and comments on the *Methodology*.

Table 5.2.2: Steps for Calculating Unit Costs

Steps	Task	Focus	Methodological Observations
1	Description	Determining the proportion of social services expenditure attributable to different client groups	The first step is to decide what proportion of social services expenditure matches the functions undertaken for clients. Where direct service costs are concerned, the choice of budget items should be quite straightforward. Purchasing and contracting are less easy to attribute. Unless a local tier of government has precise information, it would be advisable to establish a figure for contracting and purchasing –based on an assessment of the last 3 years of expenditure for these items. Overhead costs should not be included in figures for Step1 and should be entered into the process outlined in Step 4. Any high costs that distort the picture for an Oblast, city or rayon should be noted and a brief explanation included in the report. It is important to remember that these calculations should be done by each

			Oblast level department with responsibility for social services, so expenditures by other departments should be excluded. For example, if day care provided by the education department, then this should not be entered into the cost of labour and social protection.
2	Identification	Entering any payments made to clients and their families, or payments made on their behalf	The second step is to identify all payments made on behalf clients as 'on-going and placement costs'. Examples include payments for transport, holidays, equipment, payments for purchased services (e.g. foster care). In the case of residential placements the actual payments should be recorded under 'ongoing and placement costs'. In some instances one-off payments may be exceptionally large – for example costs of housing adaptations, adoptions, or the purchase of vehicles for disabled people. These should be entered directly as 'one-off payments. In order to enter on-going placements – such as residential or foster care – daily or hourly costs should be identified. All payments entered in Step 2 should be directly linked to individual clients. Once they have been entered through Step 2 they can then be aggregated for all expenditures against 'elderly' 'children' or 'disabled'. At a minimum the Oblast should have information on the number of clients and how much service each receives on average. All other expenditures will be linked to service provided by staff to build up an hourly service cost in Steps 3 and 4.
3	Identification	Assessing direct costs of services	The third is to identify and draw together the component costs of staff teams, individuals or

			centres – including residential institutions – which deal directly with clients and their families. The aim is to describe the total expenditure at the point of delivery of each direct service whether it is an individual worker or a staff member in team or in a centre. It may sometimes be necessary to make informed guesses because the accounting system does not disaggregate points of service delivery. Under these circumstances the estimates must reflect the cost of service at the point of delivery and include as much as possible of what goes in to keep the service running. So building maintenance and premises costs should be included, but exclude capital costs or asset rentals.
4	Estimation	Apportioning and building-up management, indirect and overhead costs	This step involves working out what proportion of indirect costs should be attributed to each service. Because different departments [health, labour and social protection, education and family and youth services] are organised differently each Oblast will have to make some discretion about the method they use (but this method will need to be specified in the report). The main objective is that the apportionment should reflect as far as possible the real effect the indirect cost has on the overall cost of service in question. In many cases it will be best to: (a) add a share of indirect costs to the cost of each team; then (b) allocate the team costs to the individual members of the team. The default position should be to average indirect costs evenly across all the teams supported. Types of teams that need to be considered in indirect costs include management

			teams based in Head Office; Administrative teams, personnel and cadre management teams etc.
5	Calculation	Calculating the unit costs	All other costs that are met from expenditure on different groups of social service clients identified in Step 1 should be included as a lump sum which can be called the 'remainder'

In developing the unit cost framework it is important to establish how indirect costs should be added / apportioned to direct service costs. The framework in Table 5.2.3 below sets out some guidance:

Table 5.2.3: Guidance on Unit Cost Framework

Cost Category	Apportionment
Management	All service management costs from director level and below should be accounted for
Training	A flat rate should be added to all staff on whom the training budget could be spent. For example, if the staff training only focuses on non-residential staff it should be divided between all staff in this category
Transport	Add general in-house transport cost evenly to all staff that may use a transport service for their jobs. However, direct costs of transporting individual clients should be recorded against individual clients. If a minibus belongs to a residential institution it should be included in the direct costs for that home.
Personnel and cadre management	Add to the costs of staff as a flat rate between all staff working in social services
Finance	Add to the cost of all staff working in social services – the major areas of activity are accountancy, payroll and invoicing
Administration	Add to the cost of teams who use administration services
Information Technology	This may be classified under Step 5, unless it is IT within a distinct unit such as a residential institution
Legal Services	Where these costs cannot be attributed to a particular client, they should be classified under Step 5
Contract negotiation	Add to the cost of teams by pro rate division between teams who use contracted services.

Templates for Assessing Unit Costs

The templates are designed to help work out unit costs for specific services. Five key services are given as examples and a sixth generic version, Template 6, is included in case services do not fit in any of the other categories. The Templates focus on:

- Residential Institutions
- Teams
- Multi-purpose centres
- Foster Care/Adoption
- External or Commissioned Services
- General [where 1-5 do not apply]

Template 1: Unit Costs for Residential Institutions

Expenditure Type	Cost	UAH per year
Direct costs of the service delivery setting (Step 3)	Salary costs for on site staff: 1. Management staff 2. Care staff 3. Administrative staff 4. Catering staff 5. Maintenance staff	
	On-site expenses: 6. Food 7. Printing, Stationary etc 8. Cleaning 9. Communications 10. Miscellaneous	
	Premises Costs: 11. Electricity 12. Water 13. Heating 14. Maintenance	
	Generic Management Support 15. Director 16. Senior Managers 17. Specialist staff 18. Training 19. Transport 20. Finance 21. Administration 22. Contract Costs	
Share of management costs/indirect and overhead costs (Step 4)	Total Cost Per Year	
	Total Cost Per Week (divide total cost by number of weeks service provided)	
	Unit Cost per client (divide the cost per week by the number of client-days of occupation)	

Notes:

For residential institutions, identifying the unit of measurement should be relatively straightforward. A client is deemed to be resident for a day for each night s(he) slept there or had a bed reserved. The unit of activity is, therefore, the number of occupied places each day during the period under review. Where a bed is reserved for a named client but the client is elsewhere [e.g.; at home] it should be counted and attributable to the client.

Template 2: Unit Costs of Social Service Teams

Expenditure Type	Cost	UAH Per year
Direct costs of the service delivery setting (Step 3)	Salary costs for staff. Include* 1. Management staff 2. Operational staff 3. Administrative/clerical 4. Catering staff 5. Maintenance staff	
	On-site expenses: 6. Food 7. Printing, Stationary etc 8. Cleaning 9. Communications 10. Miscellaneous	
	Premises Costs: 11. Electricity 12. Water 13. Heating 14. Maintenance	
Share of management costs/indirect costs (Step 4)	Generic Management Support 15. Director 16. Senior Managers 17. Specialist staff 18. Training 19. Transport 20. Finance 21. Administration 22. Contract Costs	
	Total cost of Team Per Year	
	Total Cost of Team Per week (divide the total cost by number of weeks team is available for clients –e.g.; 52 weeks)	
	Unit Cost of a Client Hour of Service (divide the cost per week by the number of hours of client-time)	

* Salaries, wages, allowances and payroll taxes

Notes:

The standard unit of activity for team-based staff [peripatetic] is per hour of client work. “Work” includes client contact activities, contact with other professionals, preparing case notes, reviews, planning meetings, travelling to appointments. Team meetings, training, and other indirect activities that cannot be identified with individual clients should be recorded as non-client time. It is worth noting that work undertaken with groups of clients will reflect lower unit costs of the team. For example, an hour’s work with ten disabled people should show up as ten client hours of service

Template 3: Multi-Purpose Centres

Expenditure Type	Cost	UAH Per year
Direct costs of the service delivery setting (Step 3)	Salary costs for staff. Include* 1. Management staff 2. Operational staff 3. Administrative/clerical 4. Catering staff 5. Maintenance staff	
	On-site expenses: 6. Food 7. Printing, Stationary etc 8. Cleaning 9. Communications 10. Miscellaneous	
	Premises Costs: 11. Electricity 12. Water 13. Heating 14. Maintenance	
Share of management costs/indirect costs (Step 4)	Generic Management Support 15. Director 16. Senior Managers 17. Specialist staff 18. Training 19. Transport 20. Finance 21. Administration 22. Contract Costs	
	Total Cost Per Year	
	Total Cost Per week (divide the total cost by the number of weeks the centre is open)	
	Unit Cost of a Client Hour of Service (divide the cost per week by the number of hours of client service provided)	

* Salaries, wages, allowances and payroll taxes

Notes:

Multi-purpose centres are defined as those services that operate during working hours only and do not offer overnight accommodation. They can include services for disabled people, for elderly people, children and families, and other client groups. The range of services they offer can include rehabilitation, counselling, social work, day care etc. which can be delivered in a variety of ways. Given the diverse range of activities an hour of service by the centres the total number of client hours of service provided by the centre should be used as the measure for calculating unit cost.

Template 4: Foster Care and/or Adoption

Expenditure Type	Cost	UAH Per year
Direct costs of the service delivery setting (Step 3)	Salary costs for staff. Include* 1. Management staff 2. Operational staff 3. Administrative/clerical	
Additional Costs	Other related expenses: 4. Expenses (staff) 5. Printing, Stationary etc 6. Advertising 7. Recruitment and Selection of Foster carers 8. Communications 9. Training for foster carers 10. Payments to foster carers 11. Miscellaneous	
Share of management costs/indirect costs (Step 4)	Generic Management Support 12. Senior Managers 13. Specialist support 14. Training 15. Transport 16. Finance 17. Administration 18. Contract negotiation	
	Total Cost Per Year of Providing Foster Care Services	
	Total Cost Per week (yearly cost divided by 52)	
	Unit Cost per child in foster care (divide the cost per week by the number of hours of client service provided)	

*Salaries, wages, allowances, payroll taxes

Notes:

Foster care and/or adoption are not widespread practices in the provision of social services in Ukraine. Hence the definition is characterised as: “child or young person who is moved by social workers into a domestic household which provides 24 hour family-type support by people other than their natural father and/or mother”. A day of foster care is the number of nights that a child/young person slept in the foster home. For the purpose of collecting the cost of a day of foster care two separate components need to be considered – the weekly/monthly allowance paid directly to the foster carers; and the unit cost to cover the recruitment and support of foster carers. For the purposes of collecting this data, the simplest possible approach to adding the unit cost component involves simply dividing this cost evenly between all the children in foster care or adoptive care during the period under review.

Template 5: Calculating the Cost of Commissioned Social Services

Expenditure Type	Cost	UAH Per year
Direct costs	Commissioning team costs (salaries, wages, allowances, payroll taxes etc)	
Additional Costs	Other related expenses: *Expenses (staff) *Printing, Stationary etc *Advertising * Recruitment and Selection of *Service Providers * Communications *Training service providers * Miscellaneous	
Share of management costs/indirect costs (Step 4)	Generic Management Support *Senior Managers * Specialist support *Training *Transport *Finance *Administration *Contract negotiation	
	Total Cost Per Year of Commissioning Services	
	Total Cost Per week (yearly cost divided by 52)	
	Unit Cost (divide by the number of contracts that are in operation , and then divide this number by 7 to convert to daily basis)*	

* The data for the calculation of unit costs of commissioned services should refer to the cost relating to service provided to the client and not the costs of the worker

Notes:

The commissioning of social services is, within the framework of the Law on Social Services, likely to expand in the future as a means of establishing a *mixed economy* and diversifying the range and scope of service provision, and as an alternative – with the *Balance of Service* framework – to the dominant use of residential care. Hence the template outlined above is designed to take account of this expansion. The activity measure is the cost per day which is made up of (1) the cost of the service, and (2) the cost of commissioning team that will have to monitor the content and quality of all such service arrangements. The template therefore relates only to the commissioning tasks of the services.

Template 6: General – For services that do not fit with Templates 1-5

Expenditure Type	Cost	UAH Per year
Direct costs of the service delivery setting (Step 3)	Salary costs for staff. Include* 1. Management staff 2. Operational staff 3. Administrative/clerical 4. Catering staff 5. Maintenance staff	
	On-site service related expenses: 6. Food 7. Expenses (clients and staff) 8. Printing, Stationary etc 9. Cleaning 10. Communications 11. Miscellaneous	
	Premises Costs: 12. Electricity 13. Water 14. Heating 15. Maintenance	
Share of management costs/indirect costs (Step 4)	Generic Management Support 16. Director 17. Senior Managers 18. Specialist staff 19. Training 20. Transport 21. Finance 22. Administration 23. Contract Negotiation Costs	
	Total Cost Per Year	
	Total Cost Per week (divide the total cost by the number of weeks service is provided)	
	Unit Cost Per Client (divide the weekly cost by the number of activity units to calculate the cost per activity units)	

The framework on unit cost assessment in social services outlined above has been elaborated by the DFID FRSSU project³ and submitted, as Terms of Reference, to the World Bank and the GoU for taking forward work in this fundamental area of policy. The anticipation being that technical work will be channelled through the social services component of the USIF loan. The scope of the Terms of Reference concentrate on:

³ See DFID FRSSU Report on *Terms of Reference for Technical Assistance on the Economic Assessment of Unit Costs in Social Services*, A Document Prepared for the World Bank, DFID/BSAL, Kyiv (2006e).

- Analysing current budget processes and administrative procedures used for the determination of unit costs in residential and community-based social services;
- Establishing a coherent and simple unit cost assessment system which builds on the framework of analysis contained in this DFID FRSSU report and other relevant sources, and covers all types and levels of social service provision for children, the elderly and disabled people;
- Identifies the information needs/flow and the design of a management information systems model [including a cost accounting system] that is necessary to support, monitor and evaluate the existing range of social services, and the introduction of new and innovative community-based social services;
- Detailed design of a unit cost model, including a detailed implementation plan for cost-consequence analysis [CCA]⁴
- The provision of training to central government and Oblast level staff in the essentials of a unit cost system – including the development of training programme and materials and delivery on-the-job training;
- The provision of guidance during the design and implementation of the unit cost model for social services; and
- Developing a plan for national rollout of the unit cost system for social services.

⁴ Cost Consequence Analysis [CCA] is similar to Cost Effective Analysis [CEA]. The difference is that unlike CEA, CCA is based on more than one outcome measure. Economic evaluation has to take account of both costs and outcomes of an intervention on a rationale basis. CEA is less appropriate for social services because many social service interventions do not focus on a single outcome. Thus CCA enables costs and outcomes to be assessed once the basic structures, composition, processes and outcomes that influence unit costs for a service have been defined.

Glossary of Key Terms for Calculating Unit Costs of Social Services

Allocation and Apportionment: Where expenditure debited to a budget heading is based on factual considerations, such as workload measurement, it is referred to as an *Allocation*. Where the expenditure is debited to a number of budget headings, but there is no factual basis for deciding how the expenditure should be shared, it is referred to as *Apportionment* – for example, in proportion to expenditure on staff providing a number of services that cut across distinct departments or budget lines.

Annuity: Is the amount that sum of money would earn each year if invested at a particular rate of interest

Public Value: Refers to the principle means of improving services, and increasing the efficiency and economy within which services are delivered

Budget: Is the sum of money allocated to a service or function at the beginning of the year. It is also a plan expressed in monetary values.

Capital Spend: Is expenditure on items that are likely to last more than a year, such as buildings, furniture or equipment

Direct Costs: Are expenditures on resources directly associated with service delivery.

Inputs: are the resources [e.g. staff and capital] that provide clients and their families with services and support

Marginal Cost: Is the addition to the total cost of service needed to take account of each extra client.

Mixed Economy: Refers to the balance between the public/government and private/NGO sectors in service provision

Opportunity Cost: Is the value of the alternative use of assets that have been tied up in the production of a service

Outcomes: Focus on determining whether any changes in well-being, development and welfare, occur as a result of the presence **or** absence of a specific social service

Outputs: Refers to the level of activity generated by a service

Unit Cost: Is the value of the resources [input] used to produce a service, divided by the level of activity [output] it generates.

Chapter 5.3 Equalisation Transfers and the Administration of Social Services

Establishing an Agenda for Change

Preamble

In many EU member states, and in the states that have recently joined the EU, social services receive the bulk of funding from central government transfers. Indeed, the last 20 years have brought a gradual shift from fragmented specific grants to consolidated general-purpose block grant systems. In Ukraine inter-governmental fiscal relations have adopted a variation of the general-purpose block system. The block grant system is reflected within the framework that underpins the Budget Code, and the criteria in the formula developed to allocate equalisation grants – which includes funding for social services – is calculated in a way that reflects the relative demands different populations can be expected to put on services [e.g.; education, health, social services]. Thus establishing horizontal equity is clear policy goal of government.

There is, however, a great variation in the number of criteria used for allocation formulae in the EU. These can be classified¹ into the following types:

- Sophisticated systems based on a huge number of criteria illustrating variation in spending needs, unit costs, and the local tax base – e.g.; UK, Sweden, Denmark, Norway;
- Countries that tend to concentrate [in the assessment of spending needs] on a smaller number of key criteria – e.g.; Netherlands, Belgium and Portugal; and
- Simplistic systems that rely heavily on population size – e.g. Spain, Greece and Italy.

Broadly speaking more complex systems are found in countries with higher levels of functional decentralisation within which administrative units are expected to have a reliable source of local marginal revenue with which to contribute to, or top up, allocations for social services from block transfers from central government. In most EU member states, and in new member states such as Poland, local marginal revenues are primarily generated from property taxes. Ukraine's budget code, however, prescribes a high level of functional decentralisation under circumstances where local marginal revenues are not reliable and are pooled from a narrow tax base that currently precludes a system of property taxes; and under conditions where normative standards – developed by line Ministries – for *delegated* functions are not taken into account and result in unfunded or under-funded mandates. Moreover, the equalisation transfer tends to focus on residential services and does not extend to a significant array of community-based social

¹ Swainiewicz (2003)

services which are ascribed to the responsibilities of particular tiers of local government under Article 91².

In addition, the equalisation transfers has in-built incentives that reinforce the use of residential services – given that the value of ‘ R_i ’ in the formula only applies to the number of clients in residential institutions – particularly for those that fall under the umbrella of labour and social policy and education. This incentive has a perverse effect since it means that any reduction in the number of residential institutions, or a reduction in the number of residents in these institutions, leads to a reduction in the amount of equalisation transfer received for functions that have been *delegated* to local tiers of government. Thus the fuller residential institutions are, and the longer residents can be kept in the institutions the higher the equalisation transfer for social services. Since placements in residential institutions are, on the whole, more expensive [see Chapter 3, Tables 3.5-3.9 and 3.11-3.15], the taxpayers of Ukraine end up paying more for social services. Local tiers of government therefore have little incentive to work on the development of community-based alternatives. Thus it is only by creating joint budgets for both residential and community-based social services – under a unified Oblast administration – can allocative efficiencies be established and trade-offs be made on how best to allocate resources across 25 Oblasts [plus Kyiv and Sevastopol] and over 633 local self governing units [cities and rayons] that provide social services to over 47 million people. The need for joint budgets and a single administrative structure will become more pressing in the context of implementing the Law on Social Services and related legislation – with its prescriptions for a license and contract-based commissioning-provider framework.

The Equalisation Formula in Context

The current construction of the equalisation formula – and the revenue distribution formula³ – is insufficiently sensitive to the policy objectives of the GAP towards social services, and undermines the policy directions specified in the Law on Social Services and related legislation. In most EU member states inter-governmental fiscal relations on funding for residential and community-based social services is not demarcated in this fashion, and equalisation formula – including the equivalent of the R_i value – embraces demand for both types of service. Consequently the equalisation formula is designed to take account of population groups, the level of risk they are exposed to, and their need for social services rather than where the social service they require is provided. This enables local tiers of government to then establish the *Balance of Service Provision* that is most suited to their demographic and socio-economic conditions as determined by needs assessments [e.g.; residential care, foster care, domiciliary care such as day care or home

² The arrangements are further complicated by the fact that if 70 per cent of residents in a residential institution originate from the locality of a city or rayon administration then a greater proportion of the funding for such institutions fall to the budgets of these administrative units.

³ Indeed, it could be argued that equalisation grant is almost exclusively an equalisation of revenues, and does not take account of variation in spending needs and unit costs. Even where variation is taken into account its does so in problematic ways that foster perverse incentives towards the use of residential services.

support] and in a manner that takes account of variations in unit costs between different types of service.

In most EU members states – e.g.; the UK, Germany, France and the Netherlands – establishing national structures for a *Balance of Service Provision* has meant that the equalisation formula for social services is classified by fixed allocations for children aged under 18, homeless persons, people with mental and physical disabilities, older people [e.g.; people aged 65 years and over, people aged 75-84 years, and people aged over 85], people with chronic illnesses [e.g.; cancer, HIV/AIDS], and the number of people from minority groups etc. However, unlike in Ukraine where the formula for the allocation of equalisation transfers changes every year with the passage of the annual Budget Law [see footnote 28 Chapter 2], the formula in most EU members states is fixed with substantial changes only made in the light of census data, or the re-drawing of administrative boundaries of territorial units – although like all systems there are incremental changes to the technical composition of variables used in equalisation formulae

With these observations in mind this chapter of the report delineates a number of steps that policy forums will need to consider in the context of ensuring that the equalisation formula is reconfigured to better reflect the policy objectives of the GAP towards social services. The chapter does not recommend a specific formula but does outline the types of data and the types of variables that need to be considered in the redesign of the equalisation formula that ensures allocative efficiency is incorporated into the reform of social services

Principles and Practice: Current Discrepancies in Social Service Funding Systems

It is clear from the analysis in Chapter 2 that discrepancies have arisen between the principles behind the Budget Code and concomitant practices associated with implementation. This observation hold particular resonance for social services where expenditure norms are used to calculate needs, and to determine the amount of transfers [from central government] will ensure that every local government budget has sufficient resources to realise the expenditure levels envisaged by the norms. As is already clear from the analysis in chapters 2 and 3 the discrepancies have a number of direct consequences for achieving a *Balance of Service Provision* and for driving forward the policy agenda set forth in the LSS. In view of the identified discrepancies and technical observations, the DFID FRSSU advocates the following measures for consideration:

- Given that expenditure norms for social services are integral to the equalisation transfer formula - and in view of the fact that social services fall across the legislative mandates of MoLSP, MoES, MoH and MoFYS – a new approach to the formula is required. This will requires the use of **need related information** based the demographic profile and structural characteristics of the population of each local government area which would be used to compile the basic determinants of expenditure need for every functional category covered by the formula. The application of need related information would ensure that an objective measurement of the actual, or potential users, of each type of service

[including residential and community-based social services] is used in the formula for both the country as whole and for each local government area; and would remove the variation that currently exists where equalisation transfers use different *expenditure norms* for similar types of social services that are provided under the legislative mandates of the MoLSP, the MoES and the MoH and more recently by the MoFYS – whose policy initiatives are increasingly being funded through volatile targeted subventions from the state budget.

- For assessing social services, the formula would be captured by referring to the population groups for whom the government have a constitutional and legislative duties⁴ to provide residential and community-based social services – including children, the disabled [i.e., physical and mental disabilities] and chronically ill [i.e., HIV/AIDS, TB], the elderly [aged 65 years and above], homeless people, and ex-offenders. Per capita income, levels of unemployment and the number of people in receipt of old age and disability pensions would be key variables in determining the assessment of expenditure needs for social services.
- For assessing administrative costs, the population would be weighted, as currently accounted for in the formula, by a set of coefficients that can be used to reflect economies of scale.

Establishing need related information should not be too difficult given that all Oblasts, Rayon, cities and municipalities have access to demographic data which is relevant to social services⁵. The table below provides an overview of the demographic data required for demand related information:

Table 5.3.1: Demographic Data Requirements:

Data Needed	Source	Updating and Comments
1. Total Population of local government unit	Population Census	Should be adjusted by information from Annual Household Budget Survey, or by other statistics on all territorial levels, such as natural change of population by the Statistical Committee, and the proposed demo-social survey scheduled for 2007
2. Population of local government unit of Working Age (18 – 60)	Population Census	Adjusted by Information from Annual Household Budget Survey and other statistical information
3. Number of school age children enrolled in schools in local government unit	Population Census	The original decennial census data could be adjusted annually using Statistical Committee data and Ministry of Education and Science data on school enrolment
4. Percent of households in local	Population Census	Adjusted by Statistical for annual information

⁴ See: DFID FRSSU Report: *Europeanisation and European Choice: Social Services Policy and Legislative Frameworks* (2006c)

⁵ See DFID FRSSU Report: *Demography, Social Statistics and Financial Trends: Analysing and Scoping the Future Demand and Need for Social Services* (2006a)

government unit living in flats and private homes		provided by local self-government units. Adjusted by Information from Annual Household Budget
5. Per capita household income	Population Census	Survey and other Statistical Committee data.
6. Percent of household expenditures used for food among population of local government unit	Annual Household Budget Survey	Data published only on national level. Updated by Information from Annual Household Budget Survey.
7. Annual average number of Unemployed residing in a local government unit	Employment Service local offices	Updated annually from local office data.
8. Annual average number of households in receipt of cash benefit programmes	MoLSP local offices	Updated annually from local office data
9. Number of recipients of old age and invalid pensions living within local government units	Pension and Disability Fund	Updated from Pension Fund annual data

Calculating the expenditure needs for social services would draw on a significant part of the methodology used in the current formula, and would entail using the population profile as the expenditure norm rather than the number of clients in residential institutions. However, these recommendations will need to be expressed in a single equation that represents the overall expenditure needs of a local government relative to the national average need. It is to this feature that attention now turns to below.

The existing system of fiscal equalisation for social services is not fully consistent with the principles of Ukrainian budget system as defined by the Budget Code. This mismatch between declared principles and actual practice has a deleterious effect on policy development for social services. In specific terms features introduced, under various annual State Budget Laws, into the methodology for defining the equalisation transfers for social services has led to:

- Insufficient and inefficient provision of social services in local governments;
- Redundant provision in some residential services;
- Weak incentives for the provision of alternative community based social services in keeping with the policy goals of the LSS.

These features in social service provision are reinforced by systemic weaknesses in the current financial system of local governments in Ukraine which, in turn, adversely affect the public expenditure policy, especially for social services:

- Local governments have limited avenues for generating marginal revenues. Although local taxes can be altered by local governments, existing local taxes and fees usually contribute about 2 per cent to the revenue of local budgets.
- Local governments have substantial expenditure obligations. Namely, local governments are expected to finance the most expensive public functions i.e. health care, education and social services.
- As a result of these features, there is a significant gap between the capacity of local governments to raise revenues and their ability to finance their public obligations.

Given limitations in the ability of local government's to raise revenues from local sources, they are highly reliant on the system for equalisation transfers, and have become vulnerable to biases and errors that have emerged despite the following core principles embodied in the Budget Code:

- The principle of **balanced budgets** [Art. 7 of the Budget Code]
- The principle of **equity and impartiality** [Art. 7 of the Budget Code]
- The principle of **independence** [Art. 7 of the Budget Code]
- The principle of **effectiveness** [Art. 7 Budget Code]

These principles are designed to ensure that Central Government:

- Delegates expenditure responsibilities only with corresponding financial support, and the distribution of the financial resources should be based on transparent and objective criteria,
- Local governments have the authority to spend their revenues as they want, and take account in the efficiency of their spending.

The system of intergovernmental financial relations is supposed to be compatible with these principles, and the approach for defining equalisation transfers [based on the formula] was expected to ensure that these principles were implemented in practice. Given that central government *delegates* social service expenditures to local government – and at the same time, strives to assure some minimum quality and equal access to the services - central government provides financial resources to equalise [via estimated expenditure need] the capacity of local governments in providing “delegated” expenditures. The estimated expenditure need is defined as a product of the financial normative. However, for social services the formula – as outlined above – uses the demographic profile of a local government to determine expenditures for residential services that fall under the legislative mandate of the MoH, but uses the residents and the corrective coefficients for residential institutions under the legislative mandate of the

MoLSP and MoES. In general terms the formula for assessing of expenditure needs is reflected in the following expression:

$$\text{Exp}_i = H * N * K, \text{ where:}$$

H – The financial normative

N – The population or the number of clients

K – The corrective coefficient

The table below summarises the technical detail of the variables used for social services that fall under the legislative mandates of the MoH, the MoEs and the MoLSP.

Table 5.3.2: Variables used for Obtaining Estimates of the Financial Needs for Social Services

	Financial normative	Calculation of Structural Characteristics	Corrective coefficients	Comments
Health care				
Health for oblast	Financial normative depends on the: - total expenditure on health care - total population - part of oblasts budgets on health care [according to Art. 14 of the Budget Code, equal 0.354) - coefficient of ratio of wage in expenditure on health care [equal 0.951]	Population	Coefficient of age structure Coefficient of relative cost for health care due to age and gender [defined by the World Health Organization]	
Health for cities and rayons	* The Financial normative depends on the - total expenditure on health care - adjusted population [minus population served by national and ministerial institutions]	Adjusted population [minus the population served by national and ministerial institutions]	Coefficient of age structure Coefficient of relative cost for health care due to age and gender [defined by WHO] Coefficient of differentiation of cost per client	

	- part of rayon/cities budgets on health care [according to Art. 14 of the Budget Code, equal 0.646) - coefficient of ratio of wage in expenditure on health care [1.027]		between rayons and cities [0.934; 1.065]	
Education for oblast				
- Residential institutions for children without parental care.	* Unified financial normative for education per pupil. * The normative depends on available financial resources. * The Methodology is regulated by separate legislation.	Number of pupils.	Corrective coefficient for this type of institution [12.02].	
- Residential institutions for disabled children.	Same as above	Number of pupils.	Corrective coefficient for this type of institution [6.6].	
- Specialised schools for disabled children.	Same as above	Number of pupils.	Corrective coefficient for this type of institution [2.5].	
Education for rayons and cities				There is a special coefficient for general schools. This coefficient depends on the number of pupils in a class. The coefficient is higher for classes with fewer pupils. Thus this coefficient encourages classes with fewer pupils.
- Specialised schools for disabled children.	Same as above	Number of pupils.	Corrective coefficient for this type of institution	

			(2.5).	
Education for Kyiv/Sevastopol				The number of children in orphanages of a family type was in formula but only for Kyiv/Sevastopol. However, this variable was eliminated from the formula by recent amendments to the formula in Sept. 2005.
- Specialised schools for disabled children.	Same as above	Number of pupils.	Corrective coefficient for this type of institution [2.5].	
Social Services				
- Residential institutions for elderly, disabled, disabled children	Financial normative per client in a specific institution.	Number of clients at January 1.	No corrective coefficients.	
- Shelters for minors	Financial normative per client in a specific institution.	Number of places at the end of the year	No corrective coefficients.	
- Territorial centres	Financial normative per client for residential care. Financial normative per client for domiciliary care.	Number of residential clients at January 1. Number of domiciliary clients in urban areas at the January 1. Number of domiciliary clients in rural areas at January 1.	Corrective coefficient for rural domiciliary clients [for year 2006 – 1.4].	

Weaknesses and Inadequacies in the Methodology for Estimating the Financial Needs for Social Service:

The number of clients within institutions that provide social services [which are mainly residential] is an ineffective measure for assessing the need for social services. This is because the parameter does not correctly reflect the demand for social services within local governments given that the number clients within residential institutions represents the existing supply of these services, rather than the demand or need for social services among the population. Although social services that fall under the legislative mandates of the MoH, MoLSP and the MoES may differ in their emphasis it is notable that the client groups they serve, and the types of presenting demands they deal with, are similar. Indeed, while these public functions have similar features concerning the content

and focus of the services they provide, the current formula applies different approaches for measuring demand for these services; and uses different normative measures for similar services based on the department that is deemed to have the legislative mandate for delivering the service. This **disintegrated** approach to measuring demand for **interrelated** and **similar** services has a number of perverse effects and consequences:

- The number of registered clients within residential institutions is not an adequate mirror of demand for social services in a local government area;
- The use of different variables for similar services creates opportunities for manipulation of the system⁶;
- The dominant position of residential institutions in the formula reinforces the use of residential institutions for providing social services across the board;
- The manner in which the formula disregards community-based services discourages local initiatives to provide alternative cost-effective community-based social services⁷.

Technical Observations:

The following technical observations can, on the basis of the evidence delineated above, be made:

- Although the Budget Code clearly specifies the principles on which the budget system should operate, the existing practices for fiscal equalisation do not actually fit with these principles. Moreover, the mismatch between principles and practice has significant implications for the development and implementation of policy in social services.
- The principle of **balanced budgets** implies that expenditures which are delegated should be adequately supported by financial resources. This principle is currently violated since social services provision is not based on **need based information**. As a result, the financial requirements to meet need are also not assessed correctly. Local budgets are confronted with a situation whereby they have insufficient financial resources to provide meet the minimum requirements for

⁶ The proclivity for manipulation is enhanced by the fact that if 70 per cent of residents in a residential institution originate from the locality of city or rayon administration, then a greater proportion of the funding for such residential institutions will fall under the budgets of these particular administrative units. This provision within the rules means that local administrations have vested interest in ensuring that the 70 per cent limit is not breached.

⁷ Technically speaking and in the absence of an assessment of unit costs for residential and community-based services it is difficult to make informed judgments on the extent to which community-based services can be deemed cost effective.

social services; which, in turn, often leads to insufficient and inefficient provision of social services.

- The principle of **equity and impartiality** means that the distribution of financial resources for delegated expenditures should be based on transparent and objective criteria. This principle is also violated. The existing system of fiscal equalisation is vulnerable to manipulation. Although local government officials are trying to be imaginative in their actions to overcome weaknesses and omissions in the budget formula, the practices they engage in can also encourage ‘rent-seeking’ and a heightened risk of corruption and weak accountability in social services delivery.
- The principle of **independence** is not implemented properly. Although local government does not have any formal restrictions on their fiscal sovereignty, the equalisation system implicitly signals how budget resources for social services should be spent. In other words, the current system for equalisation transfers for social services is not neutral on the spending decisions of local governments, because the variables that are used to estimate the expenditure needs for social services clearly reinforce the use of residential institutions.
- The principle of **effectiveness** remains declarative in nature. The formula for equalisation transfer recognises only specific institutions [mainly residential]. Therefore, any local initiatives to provide social services in more efficient or effective ways that would lead to better outcomes and value for money – and that would lead to a contraction of residential institutions and to a corresponding expansion of alternative services - are penalised by the system of fiscal equalisation.

Recommendations:

In view of the weaknesses and inadequacies outlined above, coupled with the case studies and the technical observations, the following recommendations are advanced for consideration:

- In addition to shifting the budget formula for social services to **need related information** [as outlined in Part 1], the second set of recommendations focus on developing a single equation for the overall expenditure needs for social services of local government relative to the national average need. This single equation would incorporate residential and community-based services and eliminate the practice of using different estimations of expenditure needs for social services that fall under the legislative mandates of the MoLSP, the MoES, the MoH and the MoFYS.

- Establish a framework for determining Local Social Service Needs. This refers to the demand for social services in a specific local government unit relative to demands in other local government units within the country. Thus, the number of clients and recipients of social services [residential and community-based] in each local government unit would need to be measured as a share of the national total. The simplest way to establish relative local social service needs would be to identify the four or five most important types of social services. The share of each local government unit in “total social services” could be the weighted sum of its share of the total expenditures – based on unit costs - on each category of social services, with the weights being the share of each of the selected categories of spending in the nationwide aggregate total of spending tax revenues from all categories included in a new equalisation formula for social services. This weighting would then give values for each participating local government that sum to 1. These coefficients would then be used to adjust the local government’s share of the total population of participating local governments – using weights that take into account its relative social service needs.
- The formula should calculate, for each local government, the share of the total pool of money that has been set aside for revenue sharing for social services. This will need to be done in a manner that takes account of the size of local government units within an Oblast [i.e.; the share of the total population of local government units within an Oblast], their relative fiscal capacity, and their relative social service needs. Thus the value of R_i , as applied in the existing formula, would be amended by removing the number of residents in residential services as a key variable for determining equalisation transfers, and replaced with a new value that reflects both demand for residential and community-based social services. One option that the policy forums will need to consider is whether a new value (S_i) is developed specifically for social services. The new value of (S_i) would be the pool of money to be allocated to each local government where (i) would be the product of three factors:

$$S_i = (P_i).(F_i).(N_i)^6$$

- Each term in this equation measures the functional expenditure needs of a local government compared to the national average measure of need. In the case of social services, if a local government provides more weighted social services to elderly, children and disabled people per capita than the country overall, it has above average expenditure needs in this particular area. And, assuming it is a

⁶ Where P_i is the share of the total population of local government units, F_i is its share of total fiscal capacity of a local government unit, and N_i is the share of total social service needs of a local government unit against the national average.

And,

Where $\sum P_i = 1$; $\sum F_i = 1$; and $\sum N_i = 1$ ($i = 1, 2, \dots, n$ where there are n local government units participating in revenue sharing within Ukraine).

transfer recipient, it would receive a larger transfer under the formula on account of these above average needs. In each functional spending area of social services the focus is on measuring relative expenditure needs rather than on financing the existing network of residential institutions.

- Presenting the workings of the expenditure side of the formula in this manner makes it easier to understand and interpret and, by doing so, significantly enhances the formula’s transparency. Furthermore, given that the data needed to implement the formula’s expenditure side all rest on the verifiable demographic profile of a local government the formula is capable of being rolled out across all administrative territorial units.

Simplifying and clarifying the presentation of the expenditure side of the current formula is an important aspect of developing a simpler formula for social services. However, in order to strike the appropriate balance for determining what social service functions need to be centralised and decentralised - and assuming that in the short term local tiers of government retain the current distribution responsibilities for the administration of both residential and community-based social services – the GoU would need to consider how best to use the transition period to establish effective auditing, monitoring and inspection functions. Table 5.3.2 lists the types of data and reporting requirements that would need to be maintained by Oblast level administrations, and which would be used as the basis for conducting a “Supreme” audit on social services. The “Supreme” auditing and monitoring function would serve as the framework for holding Oblast level departments accountable for the quality, efficiency and effectiveness of social services; and help pave the way for determining the realignment of central and decentralised functions.

Table 5.3.2: Data Needed for Auditing and Monitoring Social Services

Data Needed	Source	Comments
1. Caseload of individuals and families receiving different types of social services (residential and community-based)	Oblast level offices of MoLSP, MoES, MoH, MYFS	Oblast Administration will need to maintain a database of all recipients of different types of social services. This will allow computerised auditing and the selection of agencies to be audited by staff from Accounting Chamber, CID etc.
2. Annual reports on social services	Sub-Oblast tiers of local government	Sub-Oblast tiers of local government will need to maintain records that reflect trends in demand and supply of social services, trends in allocative efficiency of public resources across residential and community-based services, number of contracts (with prices) awarded and performance against agreed criteria.
3. Complaints registry	Sub-Oblast tiers of local government	Oblast will need to maintain a registry of complaints and actions taken in response.
4. Appeals registry	Sub-Oblast tiers of local government	Oblast will need to maintain a registry of appeals and actions taken in response to appeals
5. Annual financial reports	Oblast and sub-oblast tiers of local	Financial reports could be used by Oblast and sub-oblast tiers of local government to monitor administrative costs and benefits of social services.

	government	
6. Lists of licensed social service providers [with job descriptions and qualifications of staff]	Oblast and sub-Oblast tiers of local government	Oblast and sub-oblast tiers of local government will need to ensure that service providers meet licensing criteria and employ appropriately qualified staff.

General observations

The process of creating an effective equalisation formula that removes perverse incentives and supports the policy objectives of the GAP on social services, while at the same time establishing management information systems for the effective administration of social services, will involve complicated tasks that require a combination of resources: time, people and money. Mistakes in the design of such structures and systems are likely to be very costly. Therefore, the policy forums will need to invest sufficient time in the design systems required to collect and manage information, and to enable the analysis of data in the most efficient manner. This approach will help improve the overall quality of performance of all government levels involved in the financial management and professional administration of social services.

Annex 1: European Social Charter

Social Planning and Social Services: The Framework Underpinning EU Best Practice

Introduction:

The framework that underpins the European Union social model of best practice in social care services is **social planning**. The Revised European Social Charter [from 1996] stipulates the right of citizens to use social services [Article 14]. Countries that sign the Charter undertake to:

- Promote or provide services which, by using methods of social work, would contribute to the welfare and development of both individuals and groups in the community, and to their adjustment to the social environment;
- Encourage the participation of individuals and voluntary or other organisations in the establishment and maintenance of such services.

In EU best practice social planning, at **local and national** levels, is the principal tool for combating social exclusion. In 2001, the European Parliament, and subsequently the Council of the European Union designed a programme in support of co-operation of the member states in combating social exclusion. The Social Policy Agenda promotes quality, participation and transparency.

There are ten key principles which the European Union recommends to be observed, in order to support the policy of social inclusion [Council of the European Union, 15/223/01]:

1. Subsidiarity: policies and services will become better interconnected if they are developed and delivered as near the people for whom they are designed as possible.

2. Holistic approach: policies must be developed and services must be delivered in an integrated manner which respects the overall needs of people, rather than various limitations of an organisational character.

3. Transparency and accountability: recipients of social benefits and users of social services must have a guarantee of transparent and open decision-making, and clearly defined procedures must exist for rejection of a claim and appeal against a decision (i.e. ombudsman, Charter of Rights etc.)

4. User-friendly services: if services have an open character, if they are accessible, flexible and responding to the needs of their users, better conditions will be created for inclusion.

5. Effectiveness: services that promote inclusion promptly react to people's needs without unnecessary bureaucracy, with emphasis on timely provision and cost-effectiveness.

6. Solidarity and partnership: policies and services aiming at inclusion promote solidarity and cohesion in society, and strengthen partnerships and responsibility of all stakeholders.

7. Dignity and human rights: policies and services aiming at inclusion recognise and support human dignity and fundamental human rights for everybody, through applying principles of equality and rejecting discrimination.

8. Participation: policies and services aiming at inclusion are planned, delivered and controlled (audited) with the participation of those who are threatened with poverty and social exclusion.

9. Personal development: policies and services aiming at inclusion seek to reduce people's dependence, support the development of their independent action and strengthen their autonomy, to create opportunities for personal growth and development.

10. Permanent improvement and sustainability: policies and services can better support inclusion, and their impact can be more permanent, as there is a strengthening tendency on the part of the member states towards checking and monitoring the outputs of policies and service provision, as well as towards consultation and feedback from users.

Definitions and Applications of Social Planning for Social Care Services:

Social planning can, on the basis of the above principles, be defined as an inclusive process, involving all local stakeholders, which maps needs and resources; sets plans for the local solution of local social problems; establishes a framework for commissioning specific services; and regularly reviews results. It usually involves the establishment of an agreed planning mechanism which seeks to mobilise existing resources, stimulate new initiatives, and ensure a network of services to meet agreed outcomes and targets.

Whilst acknowledging that an effective system of **local social planning** in Ukraine is in its infancy, the principles of EU best practice - in line the Government of Ukraine's aspirations to harmonise its policies with those of the EU – will, over a period of time - need to be developed as a central feature of social services policy. The development of local social planning for social services requires, however, a robust and effective framework at **central government** level that takes full account of:

- The need to reduce poverty and social exclusion;
- The need for services to be responsive and accountable to all service users;
- Budget allocations and effective medium term financial mechanisms;
- Legislative Frameworks that protect and promote the welfare of citizens;

- An enabling environment that encourages diversity in service provision;
- Strategic directions for the delivery of social services at the national level;
- Effective frameworks for commissioning and providing services and accompanying standards for inspection and quality control;
- An effective workforce for managing and delivering social services; and
- Strategic management of change to ensure that service delivery reflects diversified needs.

Purpose of Local Social Planning:

The purpose of local social planning is to enhance and encourage positive local democratic processes. It is an inclusive system that seeks to engage all members of a local community in seeking solutions to specific local problems. This system is now an integral part of social service planning in many European countries. In the UK it is the basis on which local priorities are set, service providers are commissioned and finance is allocated. All **local governments** in the UK are obliged to produce such plans, in a manner determined by **central government**. Such plans are produced on an annual basis and provide the basis for financial support to localities.

In Central and Eastern Europe similar systems have been introduced in the Czech Republic, Lithuania, Latvia, Slovakia, Poland and Slovenia where local planning is promoted by the central government and has become the foundation for the decentralisation process. There are related developments in Bulgaria, Romania, Bosnia-Herzegovina, Croatia, Kosovo, Albania, and Serbia and Montenegro. The Federal Government in Russia is also looking at ways to encourage such planning at Oblast and municipal levels.

References

- Ansoff, I.; and McDonnell, E.; (1990) *Implementing Strategic Management*, Prentice Hall, 2nd Edition, New York.
- Bila, Myroslava (2005) *Comments on the Draft Law of Ukraine on Social Work*, Social Policy Department, Labour and Social Security, Odessa City Council.
- Bird, R.M.; and Vaillancourt, F.; (1998) *Fiscal Decentralisation in Developing Countries: An Overview*, in Bird, R.M.; et. al. *Fiscal Decentralisation in Developing Countries*, Cambridge University Press, Cambridge.
- Borgenhammer, E. (1993) *Looking After Life: Organisation, Ethics and Quality*, SNS Förlag, Stockholm, Sweden.
- Byford, S.; McDaid, D.; and Sefton, T.; (2003) *Because it's worth it: A practical guide to conducting economic evaluations in the social welfare field*, Joseph Rowntree Foundation (RJF), York, England.
- Council of Ministers, (2001-2005) *On Approval of the formula for distribution of inter-governmental transfers volume (equalisation grants, assets, transferred to the state budget) between the state budget and local budgets*, CoM Resolution 1195 September 5 2001, As Amended 2001-2005, Kyiv.
- Department for International Development (DFID) (1999) *Czech Republic: Creating Social Economic Cohesion through Improvements to the Delivery of Equitable and Responsive Social Policy and Welfare Practice*. DFID, London.
- Department for International Development (DFID) (2001) *Understanding and Reforming Public Expenditure Management: Guidelines for DFID*. Version 1 (March 2001), DFID, London.
- Department for International Development (DFID) (2004) *Project Memorandum: Support to the Ukraine Social Investment Fund – Implementation Phase*, DFID Ukraine, April 2004.
- Department for International Development (DFID) (2005a) *Support to the Ukrainian Social Investment Fund: Inception Report for Implementation Phase*. Vol.2 Birks Sinclair & Associates Ltd, Durham, England.
- European Commission (2005) *EU/Ukraine Action Plan*, DG Enlargement, UE-UA 1051/05, Brussels.
- Facilitating Reform of Social Services (2005a) *Preliminary Assessment of Public Expenditure Management for the Reform of Social Services*, DFID/BSAL, Kyiv.

Facilitating Reform of Social Services in Ukraine, (2005b) *Reforming and Modernising Social Services: Lessons from EU Experience*. A Paper Prepared for the Consultative Seminar on Strategic Measures to Support the Government of Ukraine in the Reform and Modernisation of Social Services, July 2005, DFID/BSAL, Kyiv.

Facilitating Reform of Social Services in Ukraine, (2006a) *Demography, Social Statistics and Financial Trends: Analysing and Scoping the Future Demand and Need for Social Services*, DFID/BSAL, Kyiv.

Facilitating Reform of Social Services in Ukraine, (2006b) *The Interface Between Legislation on Non-Government Organisations, Taxation and the Delivery of Social Services*, DFID/BSAL, Kyiv;

Facilitating Reform of Social Services in Ukraine, (2006c) *Europeanisation and European Choice: Social Services Policy and Legislative Frameworks*, DFID/BSAL, Kyiv.

Facilitating Reform of Social Services in Ukraine, (2006d) *Auditing for Improved Performance in Social Services Quality and Outcomes*, DFID/BSAL, Kyiv.

Facilitating Reform of Social Services in Ukraine, (2006e) *Terms of Reference for Technical Assistance on the Economic Assessment of Unit Costs in Social Services*, DFID/BSAL, Kyiv.

Government of Ukraine (1991) *Law on the Foundation of Social Protection of Disabled People in Ukraine*, No 875-X11, March 3 1991, Verkhovna Rada, Kyiv.

Government of Ukraine (1997) *Main Vectors of Social Policy: 1997-2000*, Presidential Decree No. 1166/97, October 18, 1997.

Government of Ukraine (2001) *The Budget Code of Ukraine*, Ministry of Finance, Government of Ukraine, Kyiv.

Government of Ukraine (2004) “*The Law on Social Services*”, Verkhova Rada (BVR) 2003, N45, p.358 updated under Law N 1891-IV (1891-15) of 24 June 2004

Government of Ukraine (2005) *Towards the People*, Government Action Programme, GoU. March 2005.

Government of the United Kingdom (1998) *Modernising Social Services: Promoting independence, Improving protection, Raising standards*. Cm 149 (November 1998). The Stationary Office, London.

Huw, D.; Nutley, S.; Smith, P.; (2001) *Introducing evidence-based policy and practice in public services* in Huw, D.; Davies, S.; Nutley, S.M.; Smith, P.C.; *What Works? Evidence-based policy and practice in public services*, The Policy Press, London.

Institute for Economic Research and Policy Consulting (2004) *Towards a Higher Standard of Living: An Economic Agenda for Ukraine*, ISERPC, German Advisory Group on Economic Reforms with the Ukrainian Government, Kyiv, Ukraine.

International Monetary Fund (IMF) (2004) *Ukraine: Report on the Observance of Standards and Codes – Fiscal Transparency Module*, IMF Country Report No 04/98, April 2004, IMF, Washington D.C.

Johansson, L.; (1992) *Decentralisation from Acute to Home Care Settings: Health and Social Services*, Health Policy Press, Stockholm.

Jordan, B.; (2004) *The Personal Social Services* in Social Policy Review Volume 16, Ellison, N.; Bauld, L.; and Powell, M.; Social Policy Association, The Policy Press, London.

Kharkiv Oblast Council [2005] *Annual Programme for Social Protection in Kharkivska Oblast*, Kharkiv Oblast.

Kharkiv Oblast [2006] *Annual Plan for Social and Economic Development*, Kharkiv Oblast.

Kharkiv Oblast Council [2006] *Kharkivshchyna: 2010*, Kharkiv Oblast.

Khmelnysky Oblast Council (2004) *Programme for socio-economic and cultural development of Khmelnytsky Oblast for 2004*. Khmelnytsky Oblast.

Khmelnysky Oblast Council (2005) *Programme for socio-economic and cultural development of Khmelnytsky Oblast for 2005*. Khmelnytsky Oblast.

Khmelnysky Oblast Rada (2005) *Oblast Budget 2005: Resolution of the Seventeenth Session of the Fourth Convocation, 27 April 2005, No 8-17/2005*. Khmelnytsky Oblast.

Lipsky, M.; (1980) *Street-Level Bureaucracy: Dilemmas of the Individual in the Public Sector*, Russell Sage, New York.

Litwack, J.M.; (2001) *Central control of regional budgets: Theory with applications to Russia*, OECD Working Paper No 275, OECD, Paris.

Martinez-Vazque, J.; and Zeikate, S.; (2004) *Ukraine: Assessment of the Implementation of the New Formula Based Inter-Governmental Transfer System*, Georgia State

University, Andrew Young School of Policy Studies, International Studies Programme, Working Paper 04-08, Georgia, USA.

Ministry of Finance (2005) *Institutions Funded from Oblast Budgets, Budgets of Rayons and Towns of Oblast Significance*, Ministry of Finance, Principal Finance Department of Khmelnytsky Oblast Administration, Khmelnytsky. 29 July 2005. Ref: 06-16/697 (Correspondence with authors)

Moore, (1997) *Creating Public Value: Strategic Management in Government*, Harvard University Press, Cambridge, Mass.

Netten, A.; (2005) *Personal Social Services* in Social Policy Review 17. Powell, M.; Bauld, L.; and Clarke, K.; Social Policy Association, The Policy Press, London

Osborne, D.; and Gaebler, T.; (1993) *Reinventing Government*, Addison Wesley, Reading MA,

Swianiewicz, P.; (2003) *Foundations for Fiscal Decentralisation: Benchmarking Guide for Countries in Transition*, Local Government and Public Service Reform Initiative, Open Society Institute, Budapest, Hungary.

Rondinelli, D.; (1981) *Government Decentralisation in Comparative Theory and Practice in Developing Countries*. International Review of Administrative Sciences, No 47 pp.133-145.

Rondinelli, D.; (1983) *Decentralisation in Developing Countries*, World Bank Staff Working Paper No. 581, World Bank, Washington D.C.

Rondinelli, D.; (1990) *Deconcentration, Territorial power, and the State: A critical Response*, Development and Change, Vol. 21 (3) pp. 491-500.

Schneider, A.; (2003) *Who gets what from whom? The impact of decentralisation on tax capacity and pro-poor policy*. IDS Working Paper 179, Institute of Development Studies, University of Sussex. Brighton, England.

Thießen, U.; (2004) *Fiscal Federalism in Transition: Evidence from Ukraine*, Economics of Planning, Vol. 1(23), pp 1-23,

Tobias, D.; (1999) *Moving from Residential Institutions to Community-Based Services in Eastern Europe and the Former Soviet Union*, World Bank, Washington D.C.

Tommasi, M.; Saiegh, S.; and Sanguinetti, P.; (2001) *Fiscal Federalism in Argentina: Policies, politics and institutional reform*. *Economia: Journal of Latin American and Caribbean Economic Association*, Vol. 1(2), pp. 157-211.

World Bank Institute, (1998) *A Contemporary Approach to Public Expenditure Management*, World Bank Institute, World Bank, Washington D.C.

World Bank, (1998a) *Public Expenditure Management Handbook*, World Bank, Washington D.C.

World Bank (2000) *Ukraine: Country Assistance Strategy 2000-2003*, World Bank, Washington D.C.

World Bank (2001) *Project Appraisal Document on the Proposed Loan to Ukraine for a Social Investment Fund Project*, ECA Region, October 31, 2001. World Bank, Washington D.C.

World Bank (2002) *The Development Effectiveness Record: Learning from Experience*, World Bank, Washington D.C.

World Bank/DFID (2003) *Croatia: Social Welfare Reform Strategy: Ministry of Labour and Social Welfare*, Zagreb, Croatia.

World Bank (2004a) *Ukraine: Building Foundations for Sustainable Growth*, Country Economic Memorandum. Volume1. Report No 30928-UA World Bank, Washington D.C.

World Bank (2004b) *Social Protection Implementation Project*, Project Appraisal Document, Human Sector Development Unit, Report No 27880-MK, ECA, World Bank, Washington D.C.

World Bank (2006) *An Introduction to the System of Social Care Services in Ukraine*, March 3 2006, A Report Prepared for the World Bank Mission in Ukraine, World Bank, Kyiv.

Yeager, T.J.; (1999) *Institutions, Transition Economies, and Economic Development*, West View Press. Boulder, Colorado.