

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

---

UK Department for International Development

### FACILITATING REFORM OF SOCIAL SERVICES IN UKRAINE PROJECT

Contract # CNTR 200708006

### RECOMMENDATIONS

**for optimization of formula of equalisation transfer for provision of social care services**

(based on outputs of working groups in Kiev, Kharkiv and Khmelnytsky Oblasts)

20 December 2007



**FISCO**

informed decisions in public finance  
поінформовані рішення в публічних фінансах

54a Pivnichna Str, apt 86  
Kyiv 04213, Ukraine  
<http://www.fisco-inform.com.ua>  
E-mail: [office@fisco-inform.com.ua](mailto:office@fisco-inform.com.ua)

## **Acknowledgments:**

Authors: Yuriy Dzhygyr, Roman Sheyko

FRSSU project team is grateful to Katerina Maynzyuk (DFID) for comments and valuable contribution to this work.

FRSSU project team expresses its gratitude to the participants on the focus groups in Kyiv, Khmelnytska and Kharkivskf oblasts for their valuable contribution to the discussion of technical issues of social services in preparing this document.

Project Director and authors of this document are responsible for the content of this paper.

## Context

### Basic information about the project of development of recommendations

- With the aim to optimize the formula for equalisation inter-governmental transfer in the sphere of social services according to p. 3.1. of the Order of the Ministry of Finance of Ukraine No 973 dd. 27.08.2007 “On Approval of Action Plan for Implementation of the Concept for Reforming Local Budgets” under initiative of DFID Project “Facilitating Reform of Social Services in Ukraine” (FRSSU), a **range of working consultations at the regional and national level** was held. The goal of these consultations was to **develop recommendations for amendments to the formula for equalisation inter-governmental transfer** regulated by Resolution of the CMU No 1195 dd. 05.09.2001.

### Order and methodology of development of these recommendations

- **Working groups in pilot oblasts.** During September 2007 in Khmelnytsky and Kharkiv Oblasts two working sessions were held with participation of the representatives of the local executive authorities and local self-governments with the aim to discuss the ways for optimization of the formula for equalisation inter-governmental transfer in the sphere of social services. The participants reviewed the current situation with redistribution of budget funds spent for social services and proposed changes to the formula that to their opinion would make this redistribution more efficient.
- **Working session at the national level (October 19, 2007).** Proposals for optimization of the formula developed at regional discussions were presented at the working session in Kyiv. The session was held with participation of the representatives of the Secretariat of the Cabinet of Ministers of Ukraine, the Committee of the Verkhovna Rada on social policy, the Ministry of Labour and Social Policy of Ukraine, the Ministry of Finance of Ukraine, the Ministry of Family, Youth and Sport, Analytical Department of the Verkhovna Rada of Ukraine, local bodies of the executive authorities and local self-governance of Kharkiv and Khmelnytsky Oblasts, the Ukrainian Social Investment Fund, the World Bank.

Participants of October working session supported observations as to the formula weaknesses expressed during regional consultations. In particular, the idea was supported that today's version of the formula stimulates service provision through residential institutions and discourages development of alternative services.

Nevertheless, the participants of the session agreed that current content of comments is rather general and that's why it can't be used for the development of concrete further steps for formula optimisation. Besides, some of the changes proposed aroused additional questions from the participants of the session from the point of view of their feasibility, availability of appropriate data and impact on the budget.

In connection with this, the main conclusion of the session was an instruction to complete previous proposals and prepare recommendations for final version of the formula taking into account mentioned additional comments and proposals.

**The second working session (December 14, 2007).** For the second working session, the document with recommendations completed for the request of the working sessions was prepared. Special emphasis in the reviewed recommendations was made on criteria of feasibility of changes. To make formula optimisation possible both from the point of view of availability of proper data and technical capacities and political agreement, this document proposes to develop action plan for introducing these changes step-by-step. Alongside with this the document makes concrete proposals for the first step – short term change programmes. Proposals for more strategic and technically more complicated

changes are given in the form of the draft Terms of reference for corresponding long-term programme. The participants of the working session proposed to handover recommendations for review by responsible authorities.

## **Description of proposed recommendations**

### **Main tasks for development of the recommendations for optimisation of the formula**

With agreement from the participants of the previous consultations, the main task for optimisation of financing of the social care services is introduction of changes to the formula regulated by Resolution of CMU No 1195 dd. 05.09.2001. These changes should allow to:

1. Replace current set of variables based on the number of registered clients in clearly defined institutions (mainly of the residential types) that reflects available **proposal** of these services with the **demand** data for the social care services taking into account all groups of population for which the state has constitutionally and legally fixed obligations to provide social care services based on demographic and structural features of the population in each administrative and territorial unit.
2. Provide additional correcting coefficients of the financial standards of budget sufficiency that would reflect **the difference in relative demand for the social services among administrative and territorial units.**

### **Problems of feasibility and need for the step-by-step approach**

The issue of distribution of equalisation transfers in the sphere of social services is rather critical and relevant in the context of improvement of effectiveness in the management of changes and reforming of the sphere of the social care services in Ukraine. Changes of indicators of the formula can make noticeable impact on re-distribution of the transfer funds and on the financial situation of both individual local budgets and individual budget funds recipients. The biggest risks in introducing changes are associated with the following factors:

- **Shortages of time and technical capacities to calculate the impact** of the proposed changes on the state budget and on the budgets of individual territorial units;
- **The issue of availability of necessary statistical data for introducing new variables** as well as the issue of distribution of responsibilities and obligations for collection and analysis of corresponding information;
- **Hypothetical probability of significant shifts in funds** distribution between local budgets (to the benefits of some territories at the account of others);
- **Risk of rejection of** changes without availability of proper calculations and transition period in particular in case of high probability of re-distribution shifts.
- **Special technical complexity in selection of variables for the formula in the part of social care services.** For any expenditure, the variables of the formula should include such indicators that reflect objective difference in demand for corresponding services between different territories of the country. This task is more complicated technically in the part of social care services compared to other types of expenditures (for example, in healthcare or education). These expenditures include services for too various vulnerable categories of population and thus the demand for them is a result of the set of several factors.

These recommendations are come out of the assumption that introduction of changes into current system will be the most effective if it is made quite gradually in order to calculate and consider carefully its consequences for all parties. Step-by-step changes will also allow for the participants of the process (local authorities and social service providers) to evaluate perspectives of the impacts of changes on their budgets and foresee necessary preparatory measures.

For this short-term and long-term programmes of changes in the formula for calculation of expenditures for the social services are proposed:

- **Short-term programme of changes: remove negative stimuli.** Among main tasks at this stage it is proposed:
  - a. Without opportunity to formulate within short-term period completely adequate demand indicators for the services, **remove at least current negative stimuli** to excessive service provision in residential institutions.
  - b. **As much as possible retain current re-distribution** of budget funds between local budgets and avoid significant shifts for the benefits of some budgets at the account of others.

For this, some changes to the current formula are proposed. With this changes, today's link of the calculated expenditures for the social care services to the number of recipients in specific institutions is replaced by neutral demographic categories that is the most representative for key target groups of corresponding services (detailed description of these proposals is given in the section below).

- **Long-term programme of changes: revision of demand indicators.** Later on wider range of tasks is proposed. These tasks should require more time for technical calculations and political consultations:
  - a. Development of more objective variables for the formula on the basis of detailed analysis of variation factor in demand for the social care services between the territories of Ukraine;
  - b. Qualitative simulation of the consequences of introduction of the alternative variables for the state budget and in the context of individual local budgets;
  - c. Appropriate consultations with the stakeholders as to opportunities for transition to alternative set of variables in the formula in particular in case if it is connected with the probability of significant re-distribution of funds;
  - d. Allocation of time and other necessary resources for preparation of the local authorities for introduction of changes (in particular from the point of view of introduction of new types of services, new forms of work with existing providers etc).

Development of such wider programme of changes requires much more time than the lifespan of this project. Thus this document proposes yardsticks for the Terms of reference based on which corresponding activities could be implemented in the future.

## Short-term programme

Minimum programme foresees the steps that can be taken already now and are realised in correcting some points of the Resolution of the Cabinet of Ministers of Ukraine dd. September 5, 2001 No 1195.

As it was described above, these steps assume removal from the formula those demand indicators for the social care services that are linked clearly to service provision in particular residential institutions and thus create motivation for excessive development of these particular types of services.

In the short-term programme it is proposed to replace such “infrastructure’ variables (e.g. number of clients, registered in certain residential institutions or the number of beds in shelters) with more neutral demand indicators. The variants of such more neutral variables could be indicators of the size of groups of potential clients for each service.

For each of the current “infrastructure variables” it is possible to propose the range of more neutral alternative indicators. In each case, the idea of replacement should be such that the demand indicator covers not only those clients who get services in residential institutions (e.g. number of persons under care in residential institutions for minor disabled) but also those who receive it in some alternative way (e.g. total number of minor disabled). Thus the indicator of the widest coverage for each variable is total number of population or population of the certain age group.

In this recommendations described in details in the table below for each “infrastructure variable” two types of proposed alternative indicators are given:

- Indicators of ***the size of groups of potential clients***, and
- Indicators of ***the number of representative demographic cohorts***.

Both approaches have advantages and disadvantages. The selection among them can be based from position in relation to the following criteria:

- ***Desired level of conservatism of intervention.*** Application of indicators of groups of clients is more conservative indicator while transition to demographic variables covers wider groups of potential clients so it assumes more large-scale changes.
- ***Evaluation of the weight of hidden demand.*** Forecasts of presence of hidden demand for certain types of services can be different. For the variable where presence of significant hidden demand (e.g. it relates to the services for under-age children needing social protection) it is desirable to select wider alternative demand indicator (e.g. total number of under-age population).
- ***Availability of statistical data.*** Feasibility of data collection for proposed indicators continues to be hypothetical and must be checked through special research.
- ***Numerical calculations of the impact on the budgets and re-distribution of funds between them.*** Such calculations are obligatory requirement for balanced and effective changes. They allow for the officials to see expected consequences of the replacement of these or those variables and select the variant that meets at most their vision of sufficiently safe changes.

From the technical point of view, implementation of such calculations is rather realistic however for this it is necessary to have basic information about existing calculated indicators of expenditures in the sphere of social care services as well as on alternative statistical indicators by territories.

It is worth noting that current “infrastructure” definitions of the social care services are retained not only in the formula for calculation of inter-budget transfers but also in the Budget Code of Ukraine. However presence of such approach in the Budget Code should not be taken as an obstacle for introduction of alternative variables into the formula. The task of the Budget Code is first of all to mark off the sphere of responsibility between budget levels for financing different expenditures. If definition of variables in the formula is wider, it will not hamper in any way financing by each budget the competence of maintaining specific types of residential institutions imposed by the Budget Code.

**Table: Variants for replacement of “infrastructure” variables**  
(grey colour highlights key indicators of the size of groups of clients – current and proposed)

Original variant	Proposed changes		
	Replacement of infrastructure indicators with groups of clients	Replacement of infrastructure indicators with representative demographic cohorts	Comment
<p><i>Point 27:</i> Calculated indicator of the volume of expenditures <b>for maintenance of residential homes</b> for aged people for disabled children and for training and job placement of disabled (V(sli)) for the budget of the Autonomous Republic of Crimea, oblast budget, budget of the cities of Kiev and Sebastopol is defined by the formula:</p> $V(sli) = Q(sli) \times H(sl) + V(s1gi), \text{ where}$ <p>H(sl) – financial standard of budget sufficiency <b>per one resident in the residential home for aged people and disabled, in residential homes for under-aged</b> disabled and for training and job placement of disabled of the administrative and territorial unit;</p> <p>Q(sli) number <b>of residents in the residential homes for aged people and disabled, in residential homes for under-aged disabled</b> as for the 1<sup>st</sup> of January of the year preceding the planning budget period;</p> <p>V(s1gi) – volume of additional expenditures of the administrative and territorial unit according to the requirements of the Law</p>	<p><i>Point 27:</i> Calculated indicator of the volume of expenditures <b>for social services provision</b> to aged people and disabled, disabled children and for training and job placement of disabled (V(sli)) for the budget of the Autonomous Republic of Crimea, oblast budget, budget of the cities of Kiev and Sebastopol is defined by the formula:</p> $V(sli) = Q(sli) \times H(sl) + \mathbf{+Q(s1.1i) \times H(s1.1)} + V(s1gi), \text{ where}$ <p>H(sl) – financial standard of the budget sufficiency <b>per one disabled</b>;</p> <p><b>H (s1.1) – financial standard of the budget sufficiency per one aged person</b>;</p> <p>Q(sli) – <b>number of disabled registered in corresponding administrative-territorial units</b> as for the 1<sup>st</sup> of January of the year preceding the planning budget period;</p> <p><b>Q(s1.1i) – number of population aged older than certain set limit (aged people)</b></p> <p>V(s1gi) – volume of additional expenditures of the administrative and territorial unit according to the requirements of the Law</p>	<p><i>Point 27:</i> Calculated indicator of the volume of expenditures for <b>implementation of programmes and realization of measures in relation to aged people and disabled, disabled-children and training and job placement of disabled (V(sli))</b> for the budget of the Autonomous Republic of Crimea, oblast budget, budget of the cities of Kiev and Sebastopol is defined by the formula:</p> $V(sli) = Q(sli) \times H(sl) + V(s1gi), \text{ where}$ <p>H(sl) – financial standard of budget sufficiency <b>per capita of population of the Autonomous Republic of Crimea, oblast, cities of Kiev and Sebastopol for measures in relation to aged people and disabled, disabled children</b> and training and job placement of disabled;</p> <p>Q(sli) – <b>number of population of the Autonomous Republic of Crimea, oblast, cities of Kiev and Sebastopol</b> as for the 1<sup>st</sup> of January of the year preceding the planning budget period;</p> <p>V(s1gi) – volume of additional expenditures of the administrative and territorial unit according to the requirements of the Law</p>	<p>It is proposed to switch from defining the group of clients only as residents of the residential institutions to wider definition that includes total number of disabled and aged people.</p>



<p>of Ukraine “On Status of Mountainous Settlements in Ukraine” ( <a href="#">56/95-BP</a> ), defined based on separate calculation ( Point 27 amended according to Resolution N 1203 ( <a href="#">1203-2004-п</a> ) dd <a href="#">14.09.2004</a> )</p>	<p>of Ukraine “On Status of Mountainous Settlements in Ukraine” ( <a href="#">56/95-BP</a> ), defined based on separate calculation ( Point 27 amended according to Resolution N 1203 ( <a href="#">1203-2004-п</a> ) dd <a href="#">14.09.2004</a> )</p>	<p>of Ukraine “On Status of Mountainous Settlements in Ukraine” ( <a href="#">56/95-BP</a> ), defined based on separate calculation ( Point 27 amended according to Resolution N 1203 ( <a href="#">1203-2004-п</a> ) dd <a href="#">14.09.2004</a> )</p>	
<p><i>Point 28:</i> Calculated volume of expenditures for <b><u>maintenance of shelters for</u></b> under-aged children (V(s2i)) for the budget of the Autonomous Republic of Crimea, oblast budget, budget of the cities of Kiev and Sebastopol is defined by the formula:</p> <p><math>V(s2i) = Q(s2i) \times H(s2)</math> , where</p> <p>H(s2) – financial standard of budget sufficiency of children <b><u>in shelters for under-aged;</u></b></p> <p><b><u>Q(s2i) – number of places in shelters for under-aged children according to the data of consolidated budgets approved by the local councils for the budget period preceding the planning one</u></b> (Paragraph 28 in edition of Resolution of CM N 1426 ( <a href="#">1426-2003-п</a> ) dd <a href="#">09.09.2003</a> )</p>	<p><i>Point 28:</i> Calculated volume of expenditures <b><u>for providing social services</u></b> to under-aged children <b><u>requiring social protection of the state</u></b> (V(s2i)) for the budget of the Autonomous Republic of Crimea, oblast budget, budget of the cities of Kiev and Sebastopol is defined by the formula:</p> <p><math>V(s2i) = Q(s2i) \times H(s2)</math> , where</p> <p>H(s2) – financial standard of budget sufficiency of under-aged children <b><u>requiring social protection of the state;</u></b></p> <p><b><u>Q(s2i) – number of under-aged requiring social protection of the state</u></b> according to the data of consolidated budgets approved by the local councils for the budget period preceding the planning one (Paragraph 28 in edition of Resolution of CM N 1426 ( <a href="#">1426-2003-п</a> ) dd <a href="#">09.09.2003</a> )</p>	<p><i>Point 28:</i> Calculated volume of expenditures <b><u>for implementation of programmes and realization of measures</u></b> in relation to under-aged children <b><u>requiring social protection of the state,</u></b> (V(s2i)) for the budget of the Autonomous Republic of Crimea, oblast budget, budget of the cities of Kiev and Sebastopol is defined by the formula:</p> <p><math>V(s2i) = Q(s2i) \times H(s2)</math> , where</p> <p>H(s2) – financial standard of budget sufficiency <b><u>per capita of population of the Autonomous Republic of Crimea, oblast, cities of Kiev and Sebastopol for measures in relation to under-aged children requiring social protection of the state;</u></b></p> <p><b><u>Q(s2i) – number of under-aged population of the Autonomous Republic of Crimea, oblast, cities of Kiev and Sebastopol</u></b> as for the 1<sup>st</sup> of January of the year preceding the planning budget period;</p>	<p>It is proposed to expand the range of potential clients from the number of places in shelters to the total number of under-aged children (or in some way to registered number of only those children who require protection)</p>
<p><i>Point 29:</i> Calculated volume of expenditures for <b><u>maintenance of the territorial centres of the social services of pensioners and lonely non-able-to work citizens and departments of domiciliary care</u></b> (V(s3i)) for the budget of the city of the Autonomous Republic of Crimea and oblast</p>	<p><i>Point 29:</i> Calculated volume of expenditures <b><u>for providing social services to pensioners and lonely non-able-to-work citizens and providing social domiciliary care</u></b> (V(s3i)) for the budget of the city of the Autonomous Republic of Crimea and oblast significance, district, budget of the cities of Kiev and</p>	<p><i>Point 29:</i> Calculated volume of expenditures for <b><u>implementation of programmes and realization of measures in relation to pensioners and lonely non-able-to-work citizens and providing social domiciliary care</u></b> (V(s3i)) for the budget of the city of the Autonomous Republic of Crimea and</p>	<p>It is proposed to simplify the formula significantly in this point. Instead of the list of different types of services for aged people it is proposed to take into account only registered number of</p>

<p>significance, district, budget of the cities of Kiev and Sebastopol is defined by the formula:</p> $V(s3i) = (Q(sm3i1) + (Q(ss3i1) \times K(ssn))) \times H(s31) + (Q(s3i2) \times H(s32)) + V(s3gi), \text{ де}$ <p>H(s31) – financial standard of budget sufficiency <u>of lonely non-able-to-work citizens requiring different types of social assistance in territorial centres and department of domiciliary care (with exception of residential departments for permanent residence)</u>;</p> <p><u>H(s32) – financial standard of budget sufficiency of lonely non-able-to work citizens staying in residential departments for permanent residence of the territorial centres and departments of the social domiciliary care;</u></p> <p>Q(sm3i1) – <u>number of lonely non-able-to-work citizens requiring different types of social assistance in territorial centres and department of social assistance at home (with exception of residential departments for permanent residence</u> as for the 1st of January 2006 in urban areas</p> <p>Q(s3i2) – number of lonely non-able-to work citizens staying in residential departments for permanent residence of the territorial centres as for the 1<sup>st</sup> of January of the year preceding the planning budget period;</p> <p>V(s3gi) - volume of additional expenditures of the administrative and territorial unit according to the requirements of the Law</p>	<p>Sebastopol is defined by the formula:</p> $V(s3i) = Q(sm3i1) \times K(ssn) \times H(s31) + V(s3gi), \text{ де}$ <p>H(s31) - financial standard of budget sufficiency <u>of pensioners and of lonely non-able-to-work citizens requiring different types of social assistance;</u></p> <p><i>Delete from formula</i></p> <p>Q(sm3i1) – number <u>lonely non-able-to-work citizens requiring different types of social assistance in territorial centres</u> as for the 1<sup>st</sup> of January of the year preceding the planning budget period;</p> <p><i>Delete from formula</i></p> <p>V(s3gi) - volume of additional expenditures of the administrative and territorial unit according to the requirements of the Law</p>	<p>oblast significance, district, budget of the cities of Kiev and Sebastopol is defined by the formula:</p> $V(s3i) = Q(sm3i1) \times K(ssn) \times H(s31) + V(s3gi), \text{ де}$ <p>H(s31) - financial standard of budget sufficiency <u>per capita of population of the city of the Autonomous Republic of Crimea and oblast significance, district, budget of the cities of Kiev and Sebastopol in relation to pensioners and of lonely non-able-to-work citizens requiring different types of social assistance;</u></p> <p><i>Delete from formula</i></p> <p>Q(sm3i1) - number <u>of pensioners and lonely non-able-to-work citizens requiring different types of social assistance in territorial centres</u> as for the 1<sup>st</sup> of January of the year preceding the planning budget period;</p> <p><i>Delete from formula</i></p> <p>V(s3gi) - volume of additional expenditures of the administrative and territorial unit according to the requirements of the Law</p>	<p>pensioners and lonely non-able-to-work citizens requiring assistance. Although it is proposed to avoid linking to the territorial centres in the formula these institutions can continue providing information about the number of population in these vulnerable groups as statistical support.</p>
---	---	--	---

<p>of Ukraine “On Status of Mountainous Settlements in Ukraine” ( 56/95-BP ), defined based on separate calculation;</p> <p><b><u>Q(ss3i1) - number of lonely non-able-to-work citizens requiring different types of social assistance in territorial centres and department of social assistance at home (with exception of residential departments for permanent residence) as for the 1st of January 2006 in rural areas</u></b></p> <p>K(ssn) – reduction factor of the number of lonely non-able-to-work citizens requiring different types of social assistance <b><u>in territorial centres and department of social domiciliary care (with exception of residential departments for permanent residence)</u></b> as for the 1st of January of the year preceding the planning period in rural area to the number of relative contingent in the urban area (Point 29 with amendments made according to Resolutions of CM N 1426 ( 1426-2003-п ) dd. 09.09.2003, N 1203 ( 1203-2004-п ) dd. 14.09.2004, N 911 ( 911-2005-п ) dd. 14.09.2005 )</p>	<p>of Ukraine “On Status of Mountainous Settlements in Ukraine” ( 56/95-BP ), defined based on separate calculation;</p> <p><i>Delete from formula</i></p> <p>K(ssn) - reduction factor of the number <b><u>of pensioners</u></b> and lonely non-able-to work citizens requiring different types of social assistance, as for the 1st of January of the year preceding the planning period in rural area to the number of relative contingent in the urban area In 2007 K(ssn) is 1,4. (Point 29 with amendments made according to Resolutions of N 1426 ( 1426-2003-п ) dd. 09.09.2003, N 1203 ( 1203-2004-п ) dd. 14.09.2004, N 911 ( 911-2005-п ) dd. 14.09.2005 )</p>	<p>of Ukraine “On Status of Mountainous Settlements in Ukraine” ( 56/95-BP ), defined based on separate calculation;</p> <p><i>Delete from formula</i></p> <p>K(ssn) - reduction factor of the number <b><u>of pensioners</u></b> and lonely non-able-to work citizens requiring different types of social assistance, as for the 1st of January of the year preceding the planning period in rural area to the number of relative contingent in the urban area In 2007 K(ssn) is 1,4. (Point 29 with amendments made according to Resolutions of N 1426 ( 1426-2003-п ) dd. 09.09.2003, N 1203 ( 1203-2004-п ) dd. 14.09.2004, N 911 ( 911-2005-п ) dd. 14.09.2005 )</p>	
<p><i>Point 33</i> Calculated volume of expenditures for providing assistance on care of the disabled of the I or II group as a result of mental disorder (V(s6i)) for the budget of the Autonomous Republic of Crimea, oblast budget, budget of the cities of Kiev and Sebastopol is defined by the formula:</p> $V(s6i) = Q (s6i) \times H (s6) + Q (s6ig) \times 0,2 \times H (s6)$ <p>де H(s6) – financial standard</p>	<p><i>Point 33</i> Leave without changes</p>	<p><i>Point 33</i> Calculated volume of expenditures for providing assistance on care of the disabled of the I or II group as a result of mental disorder (V(s6i)) for the budget of the Autonomous Republic of Crimea, oblast budget, budget of the cities of Kiev and Sebastopol is defined by the formula:</p> $V(s6i) = Q (s6i) \times H (s6) + Q (s6ig) \times 0,2 \times H (s6)$ <p>де H(s6) - financial standard</p>	<p>It is proposed to avoid narrow definition of the group of clients of this service only to the number of registered disabled. Instead of it is proposed to come to total number of population assuming approximately even distribution of the density of mental disorders among the territorial units.</p>

<p>of budget sufficiency of the expenditures for payment of assistance on care about mentally diseased;</p> <p>Q(s6i) – <b>number of mentally disabled – disabled of I and II groups</b> in the Autonomous Republic of Crimea, oblast, cities of Kiev and Sebastopol according to the data of reports;</p> <p>Q(s6ig) - <b>number of mentally disabled – disabled of I and II groups</b> in mountainous settlements according to data of reports . (Point 33 in edition of Resolution of CM N 1426 (1426-2003-п ) dd. 09.09.2003 )</p>		<p>of budget sufficiency <b>per capita of population of the Autonomous Republic of Crimea, oblast, cities of Kiev and Sebastopol</b> for payment of assistance on care about mentally diseased;</p> <p>Q(s6i) – <b>number of population of the</b> Autonomous Republic of Crimea, oblast, cities of Kiev and Sebastopol according to the data of reports;</p> <p>Q(s6ig) - <b>number of population</b> of Autonomous Republic of Crimea, oblast in mountainous settlements according to data of reports. (Point 33 in edition of Resolution of CM N 1426 (1426-2003-п ) dd. 09.09.2003 )</p>	
--	--	--	--

## Long-term programme

As it was already mentioned in the long-term perspective there is an opportunity to develop the formula that would make possible not only elimination of direct negative stimuli pushing the local authorities to provide services in residential institutions but also measurement of realistic and objective relative demand of each territorial unit for different types of the social care services. However, the development of this formula requires much more fundamental research. Key guidelines for such research are described below.

1. Carry out **sociological survey with further factor analysis** to identify key factors influencing the size of the social care services demand by different categories of population. On the example of the social protection of under-aged children: factor analysis should define why in some cities and districts in particular the number of homeless children, children without wardship or children who survived violence is much bigger – what indicators are worth measuring to evaluate the depth of this problem. Like hypothetical example: age structure of population, number and dynamics of divorces, urbanization level etc can be among such indicators.
2. In the framework of the sociological research and additional statistical analysis, it is necessary to identify **what factors that were founded do not correlate with the number of population**. As the task of the formula is only horizontal re-distribution of funds between local budgets but not calculation of their total needs, the key issue of the formula is comparison of the service demand in different areas with the average demand in the country. The easiest and the most rough approach is even re-distribution of funds per capita – such approach assumes that each person has equal service demand. Taking additional factors into account has sense only when we assume that similar cities and rayons have some objective difference in demand for social care services. Otherwise – if the percentage of people needing certain service in each city or rayon is almost equal – it would be much simpler to use only indicator of total number of population in the formula. Coming back to the example with the social protection of under-aged children, accounting of additional factors makes sense only if we think that the cities and rayons of Ukraine have serious variation of the percentage of such vulnerable children.
3. Carry out deep **expertise of rout factors by the following criteria**:
  - **Data availability** (if it is possible to receive regularly data for these factors i.e. is there regular monitoring of such data and their summarizing);
  - **Capacity for calculation** (the data should be in quantitative format or they should have opportunity for transformation into quantitative indicators);
  - **Absence of possibilities for manipulating** (if they are interpreted in the same way by all stakeholders of the process of policy making and practice of social services provision, local authorities should not have direct impact on the level of these indicators);
  - **Neutrality** (indicators in the formula should not create obvious or hidden stimuli for providing services in definite way; the system should be neutral in the ways of service provision rendered in individual community).
4. Carry out simulation (modelling) of possible consequences of changes in the formula and discuss it with the aim to search for acceptable variant for reform. For this it is necessary:

- Put together all possible changes to the formula and with computer software model ***the consequences of changes based on actual budget indicators of the regions of Ukraine;***
- By results of the modelling, arrange ***the meeting with all stakeholders with the aim to discuss and look for the acceptable variant of the reform.***

## THESIS

### To the sessions of the working groups in Kharkiv and Khmelnytsky.

“Optimisation of the formula for equalisation transfers for social care services provision” in the framework of the Project “Facilitating Reform of Social Services in Ukraine” (FRSSU)

#### **Context:**

The Project “Facilitating Reform of Social Services in Ukraine” assists the Government of Ukraine in introducing EU best practice in relation to the processes of policy development in the area of social care services.

In the framework of this activity, the Project ensures analytical support to Interdepartmental working group on implementation of the Law on Social Services in Ukraine and supports permanent close relations with a range of ministries among which the Ministry of Labour and Social Protection of Ukraine and the Ministry of Finance of Ukraine are the most important.

The working sessions held in Kharkiv and Khmelnytsky Oblasts and in Kiev will be focused on consideration of the issues in relation to optimisation of the formula for equalisation transfers in the area of social care services provision. Decisions and recommendations of the sessions will be presented to the Ministry of Labour and Social Protection of Population and to the Ministry of Finance of Ukraine.

#### **Brief review of the principles for financing social care services expenditures:**

The most important problem for reform of the social policy is the problem of financing of the social services. The relevance of this issue is demonstrated by Order of the Ministry of Finance of Ukraine Nr. 973 dd. 27.08.2007 “On approval of the action plan for implementation of the concept of local budgets reforming” where p. 3.1. provides for the development of draft resolution of CMU “On introduction of changes to the formula of distribution of the volume of equalisation transfers (equalization grant and funds transferred to the state budget) between the state budget and the local budgets approved by the Resolution of CMU dd. 05.09.2001 Nr 1195” in terms of improvement of the methodology: 1) calculation of receipts and expenditures of the local budgets in defining intergovernmental transfers; 2) definition of the equalization factor that is applied for the calculation of the volume of funds transferred from the local budgets to the state budget.

The range of expenditures for the social protection and social care services and the level of the budget they are covered from are defined by the Budget Code of Ukraine. According to the Budget Code of Ukraine the expenditures for the social protection and social care services depending on the responsibilities assigned by the legal acts of Ukraine can be covered at the account of the state budget and the local budgets. In its turn the expenditures of the local budgets for these objective are divided into delegated responsibilities (from the first income basket) and expenditures for institutions and measures implemented by the decisions of the local authorities (from the second income basket).

Expenditures for the social care services and social provision are made by equalisation grant. According to Resolution of the Cabinet of Ministers of Ukraine Nr 1195 the volume of the equalization grant from the state budget (T(i)) allocated to the local budgets is defined by as a difference between calculated volume of expenditures (V(i)) and calculated volume of incomes (income basket (assigned to relative local budgets (D(izak) applying the equalization factor (alpha (i)) by the following formula:

$$T_i = \alpha_i * (V_i - D_{izak}).$$

Among other expenditures constituting  $V_i$  there are also expenditures for the social care services, The amount of these expenditures based on the volume of the budget resources for this function, financial standard of the budget sufficiency and recipients of the social care services is defined by the formula where among the others the following components are taken into account:

- Calculated indicator of the volume of expenditures for maintenance of the residential homes for aged people and disabled, boarding schools for disabled children and for training and job placement of disabled;
- Calculated indicator of expenditures for maintenance of territorial centres for the social servicing of pensioners and single not-able-to work citizens and departments of the of the social domiciliary care;
- Calculated indicator of the volume of expenditures for implementation of the programmes and measures in relation to the family, women, youth and children;
- Calculated indicator of the volume of expenditures for processing information and accounting and payment of assistance, compensations and subsidies;
- Calculated volume of expenditures for assistance for taking care of disabled of the 1<sup>st</sup> and 2<sup>nd</sup> groups caused by mental disorder;
- Calculated indicator of the volume of expenditures for the payment to rehabilitated citizens;
- Calculated indicator of the volume of expenditures for implementation of other state programmes of the social protection of population;
- Calculated indicator of the volume of expenditures for burial of the participants of military operations;
- Calculated indicator of the volume of expenditures linked with privileged medical servicing of the persons suffered in the result of Chernobyl catastrophe for all local budgets;
- Calculated indicator of the volume of expenditures for implementation of measures of the social protection of disabled (Resolution of the Cabinet of Ministers Nr 1195 dd. September 5, 2001, Article 26).

If all indicators and components defined in relative normative documents are consolidated then in summarized form the formula for calculation of the expenditures for the social care services will be the following:

$$V_i = H * N * K, \text{ where}$$

H – financial standard of budget sufficiency

N – population or the number of clients

K – corrective coefficient

According to Article 97 of the Budge Code of Ukraine, among corrective coefficients of the financial standards of budget sufficiency are social, economic, demographic, climatic, ecological and other characteristics of administrative and territorial units.

As to the financial standard of the budget sufficiency, it is defined by dividing total volume of financial resources aimed at implementation of the budget programmes to the number of inhabitants or consumers of the social care services etc. Total volume of the financial resources aimed at implementation of the budget programmes by the local budgets is divided between the types of expenditures according to the priorities of the state budget policy. When financial standard of budget sufficiency is calculated the volume of non-distributed



expenditures can be defined and it combines types of expenditures for those responsibilities for which setting of standards makes no sense.

### **Problem situation:**

From the moment the Budget Code of Ukraine was adopted, the practice of expenditure calculation including for the social care services demonstrated the need for simplification and unification of the structure of these calculations and unification of the formula for distribution of the volume of intergovernmental transfers. The range of factors demonstrates it but we would like to stress the following ones:

1. The expenditure part of the formula for the social institutions legally accountable to the Ministry of Labour, the Ministry of Education and the Ministry of Healthcare has been changed and modified more than once by a range of resolutions of the Cabinet of Ministers that eventually led to further delimitation between the ways for defining the volume of expenditures for different types of the social care services. Thus according to the formula the way for calculation of financing for the residential institutions subordinated to the Ministry of Healthcare is essentially differs from the way for calculation of financing for the residential institutions subordinated to the Ministry of Labour [mainly institutions of the residential type for aged people and disabled as well as territorial centres] and the Ministry of Education [mainly specialized boarding schools]. Cumulative result of these modifications is that the expenditures for the residential institutions subordinated to the Ministry of Healthcare are defined by the structure of population of the administrative unit and the institutions subordinated to the Ministry of Labour and the Ministry of Education – by current number of persons in these institutions [or in case of territorial centres by the number of customers].

2. On the whole the formula doesn't foresee financing for some types of services in particular centres of early rehabilitation for disabled children [CERDC], as a result of this financing of these institutions is made exclusively as targeted expenditures from the oblast, city and district budgets. It also doesn't foresee financing for the services to children, pensioners and disabled in the community. These services are referred to as "own" financial competence for the budgets of settlements and districts. So de facto, there is assignment of a range of services in the community like CERDC to individual financial competence of the local budgets despite that the Budget Code regulates social services as "delegated" (delegated for implementation) function.

3. Priority expenditure items, the items for which the local budget gets more fund, are defined by the previous trends but not by demographic demands. This circumstance on one hand and appearance of such legal source as the law "On Social Services" on the other hand have led to accumulation of financially not covered assigned functions of the local authorities.

4. The use of residential institutions is stimulated as the volume of grants for the residential institutions subordinated to the Ministry of Labour and the Ministry of Education are calculated by the number of persons in these institutions.

5. Financially not covered functions assigned by different ministries to the local budgets are being accumulated. The reason for lack of financial covering of assigned functions is that due to limited capacities of the local budgets to increase the volume of their own tax revenues, the settlements, cities and rayons have no sufficient means for providing community services (the ones alternative to the services of the residential institutions).

6. Norms and standards of the social care services developed by different ministries create discrepancy between obligatory volumes of expenditures from the local budgets and their income basis. Quite often the income base is just not enough for implementing in full volume

the delegated expenditures defined by norms, standards and normative and legal acts. This in its turn creates imbalance in distribution of spheres of responsibility and accountability between centralized and decentralized functions and limits opportunities for diversification of the social care services depending on the demand.

**Task:**

In the course of the session it is expected to develop proposals for the Ministry of Labour and Social Policy of Ukraine and the Ministry of Finance of Ukraine as to changes (correction) of the formula of distribution of the volumes of intergovernmental transfers. For this, it is necessary to take into account the following:

1. As formula uses number of clients in residential institutions which rather reflect current supply of these services, there is a need for the development of new formula for calculation of the volume of equalisation grants for the social care services. For this, it is necessary to apply **demand data** based on the demographic and structural characteristics of population in each administrative and territorial unit. Based on these data it is necessary to make conclusions about rout factors defining the volume of expenditure needs for each functional category of expenditures covered by the formula. Application of demand data will ensure objective reflection of the number of available or potential consumers of the each service (both residential services and the services in the community) in the formula both for the country in the whole and for each administrative and territorial unit. Thanks to this it will become possible to avoid discrepancy when for calculation of equalization grants for similar but subordinated to different ministries (Ministry of Labour, Ministry of Education, Ministry of Healthcare ) types of social services different *criteria of target groups* and different *financial standards of budget sufficiency* are used.

2. Formula for the social care services should take into account the data about all groups of population for which the state has constitutionally and legally fixed obligation to provide residential services and community services, namely children, disabled (physically and mentally handicapped people) and persons with chronic diseases (HIV/AIDS, TB), aged people (65+), homeless, former prisoners. It might be possible that in defining calculated indicator of the volume of expenditures for the social care services it is necessary to introduce additional variables that will represent more weighted social, economic and demographic trends (e.g. income per capita etc).

**Annex 2. List of participants of the working sessions in Kiev (October 19 and December 14, 2007)**

	<b>NAME</b>	<b>Position</b>
1.	<b>Krentovska Olga Petrivna</b>	Director of the Department on the issues of veterans and people of elderly age, the Ministry of Labour and Social Policy of Ukraine
2.	<b>Stefanova Svetlana Odolfovna</b>	The Department on the issues of veterans and people of elderly age, the Ministry of Labour and Social Policy of Ukraine
3.	<b>Manatskova Olena Olexandrivna</b>	Senior Specialist of the Department on the issues of veterans and people of elderly age, the Ministry of Labour and Social Policy of Ukraine
4.	<b>Dovgal Iryna Ivanivna</b>	Head of the Department of organizational and, normal and legal provision, the Ministry on the Issues of Family, Youth and Sport of Ukraine
5.	<b>Shcherbakova Lubov Petrivna</b>	Head of Financial and Economic Department , , the Ministry on the Issues of Family, Youth and Sport of Ukraine
6.	<b>Gogol Olena Volodymyrivna</b>	Deputy Head of the Department of Inter-budget regulation of the Ministry of Finance of Ukraine
7.	<b>Peroshchuk Zorina Ivanivna</b>	Senior Specialist of the Department of Inter-budget regulation of the Ministry of Finance of Ukraine
8.	<b>Yarynych Viktoriya Borysivna</b>	Specialist of the Department of financial policy Secretariat of the Cabinet of Ministers of Ukraine
9.	<b>Gudzynsky Serghiy Olexiyovich</b>	Deputy head of the Department on the issues of budget, taxation and banking activity of the Main scientific and expertise department of the Verkhovna Rada of Ukraine
10.	<b>Kregul Ivan Yuriyovich</b>	Chief Consultant of the department on the issues of budget, taxation and banking activity of the Main scientific and expertise department of the Verkhovna Rada of Ukraine
11.	<b>Makiychuk Tetyana Mykolayivna</b>	Senior scientific advisor of the Main scientific and expertise department of the Verkhovna Rada of Ukraine
12.	<b>Kolosiuk Galyna Volodymyrivna</b>	Chief of the Secretariat of the Committee on the issues of social policy and labour of the Verkhovna Rada of Ukraine
13.	<b>Rudenko Igor Olexandrovych</b>	Senior Advisor of the Committee on the issues of social policy and labour of the Verkhovna Rada of Ukraine
14.	<b>Kryvolap Maria Konstyantynivna</b>	Senior Advisor of the Budget Committee of the Verkhovna Rada of Ukraine
15.	<b>Miroshnychenko Victor</b>	Executive Director, the Ukrainian Social Investment Fund
16.	<b>Ivanova Olena Leonidivna</b>	Coordinator of the development of potential of the Executive Directorate of the Ukrainian Social Investment Fund
17.	<b>Smolyar Yuliya</b>	Specialist on the issues of social protection, World Bank
18.	<b>Maynzyuk Kateryna Petrivna</b>	Economic Issues Advisor, British Department for International Development

<b>19.</b>	<b>Babenko Tetyana Borysivna</b>	Head of the Department of residential institutions and organizations of social services of Kharkiv Oblast State Administration
<b>20.</b>	<b>Lyovkina Ganna Stanislavivna`</b>	Senior specialist of the Department of residential institutions and organizations of social services of Kharkiv Oblast State Administration
<b>21.</b>	<b>Poberezhna Yuliya Viloriyvna</b>	Director of the Centre of social services for family, children and youth, member of the Board of Directors of "Association of business women of Podillya"
<b>22.</b>	<b>Martynyuk Natalia Mykolayivna</b>	Deputy Head of the Department of labour and social protection of population of the city of Kamenets-Podolsky
<b>23.</b>	<b>Dzygyr Yuriy Anatoliyovich</b>	Manager, FRSSU Project
<b>24.</b>	<b>Synyooky Olexander Victorovych</b>	Deputy Manager, FRSSU Project
<b>25.</b>	<b>Sheiko Roman Volodymyrovich</b>	Social Policy Consultant, FRSSU Project

**Annex 3. List of participants of the working session in Kharkiv Oblast**

	<b>Name</b>	<b>Position</b>
1.	<b>Babenko Tetyana Borysivna</b>	Head of the Department of residential institutions and organizations of social services of Kharkiv Oblast State Administration
2.	<b>Bezvesilna Maria Olexandrivna</b>	Deputy Head of planning and financial department of the Main department of labour and social protection of population of Kharkiv Oblast State Administration
3.	<b>Budko Olena Olexiyovna</b>	Leading specialist of the department of educational work, boarding institutions and social protection of the Main department of education and science of Kharkiv Oblast State Administration
4.	<b>Kuchir Serghiy Ivanovych</b>	Deputy Head of the Oblast centre for Assistance Calculation and Payment of Kharkiv Oblast State Administration
5.	<b>Levkina Ganna Stanislavivna</b>	Chief Specialist of the Department of Residential Institutions and Organisations of the Social Services of Kharkiv Oblast State Administration
6.	<b>Olishevskva Valentyna Ivanivna</b>	Deputy Head of the Services in the Issues pf Under-aged Children of Kharkiv Oblast State Administration
7.	<b>Pecherskikh Netyana Petrivna</b>	Head of the Service in the Issues of Under-aged Children of Kharkiv Oblast State Administration
8.	<b>Ponomaryova Zoya Ivanivna</b>	Director of Territorial Centre pf Pechenizky District of Kharkiv Oblast
9.	<b>Taranenko Olexander Petrovich</b>	Head of the Department of the Local Development and Infrastructure Development of DSA
10.	<b>Fedenko Tamara Ivanivna</b>	Chief of the Sector of Planning and Analisys of the Financial Department of Dergachevsky DSA
11.	<b>Kharchikova Svetlana Volodymyrivna</b>	Deputy Head of the Department of Labour and Social Protection of Population, Director of Territorial Centre
12.	<b>Khvatynets Olena Olexiyivna</b>	Deputy Mayor of Chuguyev on social issues

**Annex 4. List of participants of the working session in Khmelnytskyi Oblast**

<b>Name</b>		<b>Position</b>
<b>1.</b>	<b>Vyshpolska Olga Leonidivna</b>	Head of the Department of Finance of the Main Department of Labour and Social Protection of Population of Khmelnytskyi Oblast State Administration
<b>2.</b>	<b>Golub Mykola Petrovych</b>	Representative of Khmelnytskyi Oblast Council
<b>3.</b>	<b>Dmytrychyn Yaroslava Yaroslavivna</b>	Head of the Budget Department of the Main Finance Department of Khmelnytskyi Oblast State Administration
<b>4.</b>	<b>Martynyuil Natalia Mykolayivna</b>	Deputy Head of the Department of Labour and Social Protection of Population of city Kamenets-Podolsky
<b>5.</b>	<b>Poberezhna Yulia Viloriyivna</b>	Director of the Centre of social services for family, children and youth, member of the Board of Directors of "Association of business women of Podillya"