

BRIDGING ECONOMETRICS AND FIRST NATIONS CHILD AND FAMILY SERVICE AGENCY FUNDING: PHASE ONE REPORT

A SUMMARY OF RESEARCH NEEDED TO EXPLORE THREE FUNDING
MODELS FOR FIRST NATIONS CHILD WELFARE AGENCIES



REPORT TO THE NATIONAL POLICY REVIEW
NATIONAL ADVISORY COMMITTEE

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FUNDING MODELS FOR FIRST NATIONS CHILD AND FAMILY SERVICE AGENCIES¹

Introduction

There are now over 100 First Nations child and family service agencies (FNCFSA) providing child and family welfare services on reserve in Canada. With the exception of FNCFSA in Ontario that are funded under a separate funding agreement, agencies are funded by the Department of Indian Affairs according to a formula that was implemented in 1989 known as Directive 20-1, Chapter 5. However, as the Joint National Policy Review on First Nations Child and Family Services (NPR) found in June of 2000, the formula has some serious shortcomings (MacDonald & Ladd, 2000.) The NPR provided seventeen recommendations for improvements to Directive 20-1. This resulted in the establishment of the Joint National Policy Review National Advisory Committee (NAC) in 2001, composed of representatives from the Assembly of First Nations, the Department of Indian Affairs and Northern Development and First Nations child and family service agencies. The NAC established a sub-group known as the Operational Funding Formula Design Team (OFFD) which was tasked to explore how to change parts of the formula in line with the NPR recommendations. In May of 2004 the NAC, in consultation with the OFFD, requested that the First Nations Child and Family Caring Society of Canada (www.fncfcs.com) engage a skilled team of econometricians and related experts to identify at least three funding formula options for First Nations child and family service agencies and to further identify what research would be needed to run economic simulations of each option. In response to this request, the First Nations Child and Family Caring Society of Canada submitted a proposal outlining a three stage research process:

PHASE ONE: Identify three options for FNCFSA funding and the research agenda needed to run simulations of each option for the consideration of the NAC

PHASE TWO: Complete research identified for options approved by the NAC

PHASE THREE: Develop the economic models necessary to run the economic simulations on approved funding formula options.

¹ This is the written version of a "power point" presentation made to the National Policy Review National Advisory Committee in Vancouver, British Columbia, December 4, 2004.

With the funding support of the Department of Indian Affairs and Northern Development and the engagement of Dr. Fred Wien and Dr. John Loxley as principal investigators, Phase one of this work began in September of 2004 and was completed in December 2004 culminating in a presentation of the research findings to the NAC on December 4, 2004. The following presentation, and thus this report, reflects the following objectives:

- provide background on how funding formulae are developed
- how information for Phase I was collected
- outline three funding formula options
- describe the benefits and limitations of each model and
- outline a research agenda for each model

Background

The initial First Nations child and family service agencies were formed one at a time beginning in the mid-1980's. Given this early pattern of development, it was not surprising that each FNCFSAs negotiated its budget individually with the regional office of INAC. This process, *while* contributing to the development of these FNCFSAs, was cumbersome and there was a growing concern that a pattern of inequitable funding could emerge in the absence of some kind of common framework. Although it is likely some common principles were applied these have not been documented. This pattern of determining funding soon became untenable. This was the case both from the point of view of INAC, who would have to conclude an increasingly large number of individual negotiations, as well as from the point of view of the receiving FNCFSA.

This drove the movement toward developing a national formula which could better assure equity and fairness in both the content and amount of funding for a growing number of child welfare agencies. Despite the advantages, the task of developing a national funding formula is not a simple one given the variations that exist in the characteristics and conditions of each agency. The development of a national formula is further complicated as clear examples of existing funding methodologies for child welfare are not always apparent. For example, in some jurisdictions outside the First Nations context, it may no longer be clear how a given set of agencies or departments is funded. The original formula, if there was one, may be lost in the mists of time, and year to year funding decisions may reflect no more than a cost of living increment to a pre-existing budget (or an across-the-board cut) combined with some recognition of changing work loads. In a typical university department, for example, one can expect such across-the-board increments or reductions but otherwise the budget stays the same, unless there is a sharp increase or decline in enrolment. Furthermore, adjustments in the formula may be made at a practice level as funding officials adjust to changes in context or practice. As First Nations child welfare agencies are not funded on the basis of a determination of need but rather on population levels, there appears to have been significant regional variation in the implementation of Directive 20-1 as funding officials within the department adapted to their local context. Another approach is to fund according to a fixed budget. In this

situation, rather than completing a needs assessment and then determining funding accordingly, it is determined that a certain pot of money is available, and that sum is distributed to the agencies or departments according to some formula.

In preparing this report on funding formulae, we have reviewed some pertinent literature from Canada and abroad and conducted interviews with informed observers and participants including the Operations Formula Funding Design Team (OFFDT). Our main source of information about the existing formula and alternatives has been the meetings we have had with six First Nation child welfare agencies located in various parts of the country. These agencies have been of different sizes, and have served urban, rural and more remote communities. Some were established prior to the introduction of the DIAND funding formula, others have come later. Some operate under a block funding arrangement for their maintenance expenses and others adhere to the reimbursement plan for allowable expenses. Taken together, they have given us a very good picture of the issues involved in revising or replacing the existing funding formula.

Findings from FNCFSA Interviews

As noted above, a fundamental information source for this project were the interviews held with six First Nations child and family service agencies located in six different provinces across Canada. The agencies were selected by the research team as they represented differing agency sizes, service contexts, regions and cultural groups. The research team was extremely impressed by the cooperation and significant contribution of time and expertise made by all of the participating agencies.

The concerns and challenges expressed by the agencies reflected the seventeen recommendations made in the Joint National Policy Review of First Nations Child and Family Services completed in June of 2000. For example, lack of funding for primary, secondary and tertiary (least disruptive measures) prevention services was identified by all agencies as a significant concern as was the lack of implementation of the price adjustment (COLA) contained in Directive 20-1. Other issues such as the need for increased funding for management information systems, capital costs, culturally based program and standards design and evaluation, caregivers, and staff compensation/training were routinely identified. Inadequate cost adjustments for remoteness was also identified by agencies serving populations located in remote regions of Canada. Moreover, FNCFSA serving communities with child population sizes below 1000 expressed concerns about the inadequacy of the operations formula allotments for small agencies under the current formula.

Overall, our findings affirm that the findings and recommendations of the NPR which was completed in June of 2000 continue to be reflective of the concerns that FNCFSA are experiencing today. Both have as their objective enhancing funding levels so as to better support culturally based practices – and especially preventative and community development based approaches to child maltreatment. All agencies agreed that immediate redress of inadequate funding was necessary to support good social work practice in their communities.

Basic Principles

At its meeting in November, 2004, the OFFDT set out some basic principles that should be reflected in any new approach to funding the First Nation agencies. These principles articulate the desired elements of a new formula, including the variations in agency circumstances that need to be taken into account and the constraints faced by the funding agency. The new formula should:

- support prevention and community development
- be consistent with the UN Convention on Rights of the Child
- be responsive to the proportion of high needs children
- provide equal benefit to children under the law
- accommodate unexpected occurrences
- be responsive to remoteness and service context
- support culturally based services
- permit flexibility in the allocation of the budget
- provide automatic adjustments for changes in price (cola)
- provide adequate funds to meet the needs of children in care
- stay within DIAND's mandate

We turn now to describing three alternative approaches to providing funding for First Nation child welfare agencies.

Option 1: Redesigning the Existing Formula

The structure of the existing formula is as follows:

- Operations budget provides fixed amount for core administration. Maximum is \$143,159 plus \$10,714
- It also includes a variable amount of \$727 per child in the 0-18 age group for staff, purchase of services, training, administration
- Adjustments take into account size of agency and remoteness factor
- There is also a maintenance component which reimburses the agency for permitted costs incurred to look after children in care
- In lieu of reimbursement of actual costs, an agency can opt for flexible (block) funding

As noted above, the existing formula was put in place in the early 1990's. At the time, certain assumptions were made:

- Formula assumes 20% of children in need, 6% of children in care
- One child care and one family support worker for every 20 children in care

- One supervisor and one support staff for every 5 workers;
- Wages based on average salaries in Ontario and Manitoba

The formula was supposed to look after the following expenditure components, although in practice agencies believe it has fallen short of providing the necessary funds:

- Salaries and benefits
- Administration including rent, equipment
- Legal costs for agency and children
- Protection services
- Prevention services including homemakers
- Therapy costs
- After hours service

While much criticism has been directed toward the formula, it also has certain strengths:

- It is a national formula that provides equity across the country
- It reimburses actual costs for allowable expenditures
- It is broadly consistent with how agencies are normally funded
- It permits a block funding option for flexibility
- It aims to provide comparable programs and services

Nevertheless, our interviews with agencies and the outcomes of the National Policy Review have also identified a number of serious shortcomings in the formula. They are:

- Lack of provision for prevention, both staff and maintenance
- Salaries, benefits and other costs that have not kept up with changes; lack of cost
- Inadequate and inappropriate remoteness formula
- Inadequate provision for legal, insurance, training costs and for cultural appropriateness
- Lack of support for less intrusive measures including kinship care and care of children in own home
- Lack of comparability to programs and services offered by provinces
- Lack of provision for extraordinary costs
- Lack of provision for capital costs
- Insufficient recognition of core administration costs of small agencies
- Lack of adjustment in operation funding for higher than assumed caseloads and high needs children
- Longer term, implications of stability or decline in 0-18 population

It may be possible to correct these shortcomings in the existing formula without necessarily throwing out the positive aspects of its basic structure. Understandably, however, DIAND and the agencies would want to know what the implications of changes in the formula would be. The Department would want to know the impact on the Department's budget and perhaps its authorities from Treasury Board, while the agencies

would be interested in the changes in revenues that could be expected at the community level. Changing the funding formula also changes the incentive structure for what agencies do, so the implications go well beyond strictly financial ones.

Thus the impact of the changes would need to be tested out in a quantitative model, and for the latter to be accomplished a solid data base is required. For this reason, we set out a research agenda involving 8 projects. The main research questions and methodology for each project are set out below:

Project 1: On Prevention

- What is best practice in preventive work in Canada and abroad?
- How should *the* funding formula incorporate this element and what is the cost?
- What are the realistic savings that could be expected through limiting or reducing children in care?

Methodology: literature review and key informant interviews.

Project 2: On Gaps in Programs and Services (Provincial Case Studies)

- What programs and services do provinces actually offer in family and child welfare? What is statutory and non-statutory, and how are they funded?
- What are their salary and benefit scales (linked to qualifications)?
- How are legal costs supported in provincial agencies (children in care; inquests)?
- How are population size and caseloads taken into account?

Methodology: a province by province analysis of programs, services, wages and benefits using available data plus interviews as required.

Project 3: On Gaps in Programs and Services (First Nation Agency Case Studies)

- What core programs and services do First Nation agencies offer?
- What salary and benefits do they provide (linked to qualifications)?
- What are actual costs and funding requirements to account for remoteness, insurance, training, standards development and legal costs?

Methodology: (i) 2 case studies per region (ii) development of template (iii) completion of template by all agencies.

Project 4: On Extraordinary Costs

- What is the experience of other jurisdictions with an extraordinary costs fund?
- What items should be included in an extraordinary costs fund and how large should it be?

- Who should administer such a fund and what should be the application ground rules? How should the concerns of the Auditor General be addressed?

Methodology: Key informant interviews.

Project 5: Management Information Systems

- What kind of MIS system is required? Do such models already exist?
- Should it be comparable across the country? Comparable to the province?
- Cost of development and maintenance (hardware, software, staff, training, transition)
- Implications for funding formula budget

Methodology: Engage expert on MIS systems. Key informant interviews.

Project 6: On Capital Costs

- What are the housing/space needs of First Nation agencies for their own operations and to provide care in the community?
- How should space costs be addressed in the funding formula or outside it (e.g., capital budget up front; amortization over time; an occupancy cost item that could be used for rent or capital construction, etc)

Methodology: Add this dimension to case study of 12 First Nations agencies.

Project 7: On Small Agencies

- What are the core administrative staffing and related requirements of small FNCFSAs?
- How should the funding formula be adjusted to meet these requirements?
- What is the minimum size of agency and related population that is consistent with good social work practice and with economies of scale?

Methodology: Key informant interviews with a sample of small to medium sized agencies.

Project 8: Jurisdictional Disputes

- What are the issues concerning the funding of children in care with health needs?
- How do DIAND, Health Canada and the provinces see these issues?
- Is there a basis for resolving these disputes or at least finding agreement on a dispute resolution mechanism?
- What are the pros and cons of different dispute resolution mechanisms?

Methodology: Build into Projects 2 and 3, plus additional interviews with relevant persons

Option 2: The Provincial Funding Model

Another approach to funding First Nation child and family service agencies would be for DIAND to provide funding in the same manner and at the same level as is done by each of the provinces. This would not mean that the First Nation agencies would need to provide exactly the same programs and services, but their funding would be determined in relation to the funding practices of the province in which the agency is located.

This approach carries with it certain assumptions:

- There would be not one formula but 10 (more if agencies are established in the territories over time.)
- Funding of First Nation agencies would be determined according to the manner and level of provincial agencies.
- First Nations child and family service agencies would not need to provide exactly the same programs and services as the province. There is room for culturally appropriate programs and services.
- The starting point is the core programs and services provided by the province and the costs of providing them.
- Education and training levels, salaries benefits, workloads would be equivalent to the province.

This kind of approach to funding is being seriously explored by at least one First Nations agency in Alberta. Using this as the example, the funding formula would include the following components, at least in that province:

- A provision for governance costs (e.g., Board of Directors) which is enveloped.
- Core management and administration, varying by size of agency.
- Financial administration and services.
- Infrastructure costs, including capital and computer hardware and software.
- Direct delivery costs tied to number of children in caseload.
- Program services and support.

It is important to emphasize that the following summary of the strengths and weaknesses of this model are based on a summary exploration of the model in one province only – further research is required to establish the facts. Nonetheless, based on our current analysis, the strengths of the provincial funding model are the following:

- It could mean higher levels of funding for FN agencies, at least in some provinces
- It would permit a reduction of the gap in programs and services between on and off reserve status Indians within provinces
- It might permit more attention to be paid to preventative programming, kinship and home care, leading to a reduction of children in care.
- It may better provide for legal, capital and other costs

The provincial funding approach also brings with it some disadvantages:

- Regional inequalities amongst First Nations agencies located in different provinces will be difficult to control
- There is the concern that FN agencies would be drawn closer into provincial sphere and be subject to provincial fluctuations in social service investment.
- There is a lack of positive, trusting relationship in some cases between provinces and First Nations CFS agencies.
- Provincial formulae may themselves be inadequate. For example: remoteness, emergency funds, cultural development, MIS, small agencies may not be adequately addressed.
- Funding may vary by number of children in care, not by the population of children aged 0-18 years.

To establish the specific features and implications of moving to a provincial funding approach will also require some research. The main research questions to be pursued in Project 9 are as follows:

Project 9: The Provincial Funding Model

- What is the funding formula in each province?
- What results would it achieve when applied to FN agencies in each province?
- What is the difference between federal and provincial funding in terms of dollar outcomes?

Methodology: province by province analysis combined with case studies of 12 FN agencies (Project 3). Then applied to all FN agencies

Option 3: The First Nations Funding Model

A third approach to funding First Nation child and family service agencies is one that is explicitly based on community needs and assets and is rooted in the particular socio-economic and cultural characteristics of the communities and Nations which the agencies serve. The approach involves determining the core set of programs and services that First Nation agencies need to offer in their communities. This core set would be based on the unique socio-economic and demographic conditions of the communities. It would take cultural differences into account and would be rooted in best practice based on First Nation experience. Thus funding to agencies would be based on the cost of providing the core set of programs and services, but with appropriate adjustments to take into account varying conditions, cultures, population sizes and locations.

At this point, it is less clear than it is with the other two models what such an approach to funding would look like, and what its implications would be. It also requires some research to be undertaken, a starting point for which is outlined in the following project designed to scope out the shape of a First Nations funding model.

Project 10: A First Nations Funding Model

- What are the unique conditions faced by First Nation communities in family/child welfare field?
- What is best practice in this context, taking into account First Nation cultures and perspectives?
- What are an ideal set of programs and services in this context, and the cost of delivering them?
- What adjustment factors would be needed to accommodate differences among First Nation communities?
- What is the range of funding models that could best support a “First Nations” child welfare system?
- What are the steps in implementing this scenario?

Methodology: Literature review, case studies and interviews

Summary

The contract for service required that three funding formula options be identified for First Nations Child and Family Services, that the pros and cons of each options be outlined and the research needed to run economic simulations of each option be identified.

Overall our key findings are:

1. That First Nations child and family service agencies included in our research project expressed concerns regarding funding that were consistent with the findings of the Joint National Policy Review on First Nations Child and Family Services completed in June of 2000.
2. The National Advisory Committee affirmed that the basic principals identified on Page 7 of this report should apply to any new funding option that is developed.
3. Three funding formula models were identified: Fixing the current formula, the provincial funding model and the First Nations funding model.
4. After reviewing the existing literature and research, the specific research questions needed to inform all three funding models is detailed in this report along with a proposed research methodology.

The research findings and options, detailed in this report, were presented to the National Advisory Committee of the Joint National Policy Review on December 4, 2004 in Vancouver, British Columbia. Upon reviewing the information summarized in this report, the committee directed that research be conducted on all three options. Completing the research will form phase two of this project followed by phase three which will involve First Nations agencies completing a survey tool designed to better inform the National Advisory Committee, and agencies themselves, of the implications of each option.

A proposal to complete the research detailed in this report will be submitted to the Department of Indian Affairs and Northern Development in January of 2005.