

# CASHFACTS

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## Unit costs and pricing

**C**are in the Community has highlighted the importance of the voluntary sector. At the same time, funders are becoming more concerned about value for money. Many charities are being asked to analyse their unit costs.

Funders believe that they can then "fairly" compare one charity with another or with a private sector supplier. It is easy for a funder to ask "What is the unit cost?", but it can be quite difficult for a small charity with many services to calculate. Small charities are often much more complex than small businesses of a similar size.

A community organisation will frequently be providing many different services from a tight budget.

### The Tadshal example

The example we use shows how one charity analysed its unit costs. The Tadshal Community Association provides a wide range of services for refugees who have come to London in the last few years, fleeing a horrific civil war in their country.

Many members of this community - adults and children alike - are still traumatised from the bombing of their villages, torture, rape and starvation. People disabled by the war live very isolated lives, unable to speak English and experiencing repeated

memories of their terror, while living in lonely bedsits scattered across London.

The Community Association employs one member of staff (the co-ordinator) and has a large number of volunteers. It provides the following services:

- Advice and advocacy
- CounsellingHealth access and welfare visits
- Supplementary school
- Youth club
- Lunch club
- Outings and events
- Commercial translations

The co-ordinator has kept a time sheet for the past month and from this she reckons that she uses her time on a weekly basis as follows:

- Advice/advocacy 7 hours
- Counselling 1 hour
- Home/welfare visits 5 hours
- Supplementary school 3 hours
- Youth activities 1 hour
- Lunch club 3 hours
- Outings/events 1 hour
- Commercial translation 4 hours

**Sub-total 25 hours**

- General Administration 6 hours
- Fund raising 2 hours

- Charities Act admin. 2 hours

**Total 35 hours**

The first eight items listed are "outputs" - that is, the charity's clients receive a service. Each of these can be called a "cost centre" because you allocate costs to them. The last three headings are general services that are used by each cost centre during the year.

General administration relates to running the services but is not easily related to a specific service. This includes opening the post and dealing with the answering machine. Fundraising and Charities Act administration both relate to the Charities Act regulations. Charities should now record the costs associated with fundraising and the managing and administering of the charity: things like writing management committee minutes and attending committee meetings and the AGM. These costs are shown in the last two columns of the table.

The Tadshal treasurer has agreed that the costs of general administration, fundraising and Charities Act administration will be shared by the projects using a ratio based on the 25 hours the co-ordinator spends on the different projects. This is very easy to do using a spreadsheet on a computer.

The first eight headings at the top are the different cost centres and the first row, immediately below, shows how the co-ordinator's hours per week are apportioned to each cost centre.

In the third row the co-ordinator's salary is apportioned (split-up) between the dif-

ferent cost centres. This is very easy to do. For example, the figure (£)5,963 in the second row under Advice & Advocacy is the co-ordinator's salary, national insurance and pension contribution (£21,296) divided by the total number of hours she works on projects (25) multiplied by the number of hours she spends on this particular activity – i.e.  $£21,296 \times 7/25 = £5,963$ .

So £5,963 is the proportion of the co-ordinator's salary that has been allocated to the Advice & Advocacy cost centre based on the time recorded on the time sheets.

The other figures in the Salary row are calculated in a similar way. The 7/25 is a ratio of the time spent on one activity (cost centre) to the time spent on all activities. One could just as easily use a ratio based on hours per month or year if that was more convenient.

The next row is volunteer cooks. Only two cost centres, the Lunch Club and Events, use cooks. The cost of £750 has been split between these two cost centres by estimating that the events (Christmas and summer) will spend £35 on volunteer cooks and the rest of the money will be spent by the lunch club.

The next row - Other Volunteers - allocates the expenses paid to general volunteers to those cost centres (projects) that pay volunteer expenses by estimating the annual cost of volunteers used by each cost centre. No volunteers are used by Advice & Advocacy, Counselling or Commercial Translation, as these activities are undertaken by the co-ordinator and freelance therapists, no charge is

made to these cost centres for volunteers.

The next two rows - Insurance & Maintenance and Rent of Office & Cleaning - are general overheads. There are a variety of ways in which they could be allocated including by:

- floor (office) space used
- funding levels for different projects
- the co-ordinator's time spent on different projects.

Some projects, like Home/NHS Welfare Visits, do not use floor space and in this case some projects do not receive specific funding. The treasurer felt that it was fairer to use the co-ordinator's hours spent on the projects as the basis for the apportionment.

The figure 140 in the cell (entry) for Insurance & Maintenance in the column headed Advice & Advocacy is obtained by dividing the total for Insurance and Maintenance £500 by the co-ordinator's hours per week:  $500 \times 7/25 = £140$ .

The co-ordinator has estimated that Advice and advocacy accounts for 33% of the telephone usage. So one third of the telephone has been charged to this cost centre and the balance has been apportioned out to the other cost centres using the ratio of the co-ordinator's hours.

### **Suitable units**

You can probably look at the rest of the spreadsheet and understand why figures are included in some cells and not others.

The Total costs row gives the annual cost of each project. The Unit costs row is calculated by estimating the number of units supplied in the year and dividing the total cost by these units. Care needs to be taken in choosing a suitable unit for measuring a project. The simplest is often the cost per hour. Other units that could be used are cost per case for case work, cost per visit or cost per client for home visits and cost per meal for the Lunch Club.

You should consider whether a particular unit is economically sensible and, if it is used in a service agreement or contract, are you confident that the target set is achievable?

Surveys of advice work have shown that most cases are simple and can be completed in under 20 minutes, but 20% of cases are extremely complicated and can take over 5 hours. Having a contract that pays a price per case may result in the more complex cases being turned away because they are uneconomic. One could have a fixed price for short cases and a different price for long cases or be paid by the case work hour.

### **Retain control**

The Supplementary School might have a cost per pupil hour, but there are often weeks when significant numbers of children have flu. A better unit might be the number of children on the register and attending at least 75% of the time.

### **Top slicing**

This a different approach. A percentage of each project's income goes to meet central administration and management

costs. With this method, Management and Administration is also a cost centre. Twenty five per cent of income is sometimes used as the top-slicing charge.

In the example the unit costs are given at the bottom of the table and have been calculated in the following ways.

**Advice & Advocacy** | The cost per hour of advice work assuming the co-ordinator works a 45-week year is £24.24. This can then be represented as £12.12 per case for one hundred and eighty short twenty-minute cases and £121.20 per case for forty-five long five-hour cases.

**Counselling** | The cost per hour for ten hours a week for fifty weeks a year is £22.77. This can be represented as £592 for clients attending 6 months of therapy.

**Visits** | The cost per visit is £10.28 based on 740 visits a year and the cost per client is £51.38 based on 148 clients a year.

**Supplementary School** | The cost per pupil year is £198.97 based on thirty pupils a year.

**Youth Activities** | The cost per 3-hour session is £49.67 based on 52 sessions. This can be represented as £3.31 per youth per session if an average of 15 attend each session.

**Lunch Club** | The cost per meal of £6.10 is based on 28 meals a week for 52 weeks.

**Outings/Events** | The cost per person of £22.88 is based on two events with fifty people at each event.

**Commercial Translation** | Cost per hour: £24.06 for 180 hours a year.

### **Social Services**

The Tadshal Association receives a grant of £25,000 from Social Services and grants of £26,000 from trusts. Social Services wanted to know what services they were funding – Advice, Counselling, Home and NHS visits and the Lunch Club – were costing them. The total for these cost centres is £35,499, so the Social Services grant is meeting 70% of the cost. This means that each unit cost can be reduced by 30% when it is reported to Social Services. So, for example, Social Services is paying £4.27 towards the cost of each Lunch Club meal, which is the unit cost to them.

### **Charities Act**

The columns Fundraising and Charities Act Administration are calculated slightly differently. They are included to provide information for the auditor or independent examiner but are not cost centres. The figure (£)1,217 was obtained by multiplying the co-ordinators salary costs by 2/35 as she spends on average two hours out of each 35 hour week on fund raising. Similarly the figure (£)188 in office rent was obtained by multiplying the total rent 3292 by 2/35 the amount of office time spent on fundraising.

The figures (£)220 and in management committee expense and (£)600 for auditing are the total expenditures on these headings. They are shown in full because they are expenditure that must be declared under Charity Administration for the Charities Act.

The figures in the Fundraising and Charities Act Administration columns have already been apportioned in the unit cost columns so they are not included in the total column.

### **Pricing**

Price is not the same as cost. When pricing the services one should add a contingency for things going wrong. Some people add 5%. Consider what the highest price is that the funder will pay. Think about who else they could purchase the service from. Would they charge more or less? There is nothing wrong with making a profit. It can be used to develop other activities. If you subsidise the service by charging at below cost, you must be sure that you have other sources of funds or sufficient reserves to support the subsidised price.

	Total	Advice & Advocacy	Counselling	Home /NHS/ Welfare visits	Suppl School	Youth	Lunch Club	Outings Events	Trans-lation	Fund Raising	Charities Act admin
<b>Co-ordinator's hours/wk</b>		<b>7</b>	<b>1</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>2</b>	<b>2</b>
Salary / N.I. / pension	21296	5963	852	4259	2556	852	2556	852	3407	1217	1217
Volunteer cooks	750						715	35			
Other volunteers	3125			1500	585	500	500	40			
Insurance & maintenance	500	140	20	100	60	20	60	20	80	29	29
Rent of office & cleaning	3292	922	132	658	395	132	395	132	527	188	188
Rent of rooms & hall	4880		2500		900	700	700	80			
Telephone	770	256	29	143	86	29	86	29	114	44	44
Post print stationery	200	56	8	40	24	8	24	8	32	11	11
Staff training	650	42	6	230	218	106	18	6	24		
Mgmt cmtee exp	220	62	9	44	26	9	26	9	35		220
Staff travel	290			290							
Therapists	7800		7800								
Teaching materials	250				250						
Transport	1550			200	200	200	800	150			
Audit	600	168	24	120	72	24	72	24	96		600
Subscriptions	100	28	4	20	12	4	12	4	16		
Food	3497				585		2912				
Events	900							900			
<b>Total costs</b>	<b>50670</b>	<b>7636</b>	<b>11383</b>	<b>7604</b>	<b>5969</b>	<b>2583</b>	<b>8876</b>	<b>2288</b>	<b>4332</b>	<b>1489</b>	<b>2309</b>
<i>Unit costs (see pages 6 &amp; 7)</i>		<i>24.24</i>	<i>22.77</i>	<i>10.28</i>	<i>198.97</i>	<i>49.67</i>	<i>6.10</i>	<i>22.88</i>	<i>24.06</i>		

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