

# COSTING AND PRICING MODELLING HANDBOOK

*A component of the Human Services Costing &  
Pricing Resource Package*

Prepared by the Centre for Public Value and  
the Centre for Social Impact for the  
ACT Government

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### Acknowledgement of Country

In the spirit of reconciliation, the Centre for Public Value and CSI UWA acknowledges that their operations are situated on Noongar land, that the Noongar people remain the spiritual and cultural custodians of their land, and continue to practise their values, languages, beliefs and knowledge. We acknowledge the Traditional Custodians of the country throughout Australia and their connections to land, sea and community. We pay our respect to their elders and extend that respect to all Aboriginal and Torres Strait Islander peoples.

### ACT Government Acknowledgement of Country

We acknowledge the Ngunnawal people as traditional custodians of the ACT and recognise any other people or families with connection to the lands of the ACT and region. We acknowledge and respect their continuing culture and contribution they make to the life of this city and the region.

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### Disclosure Statement

This project has been jointly undertaken by the Centre for Public Value and the Centre for Social Impact UWA at the University of Western Australia. It was funded by the ACT Government.



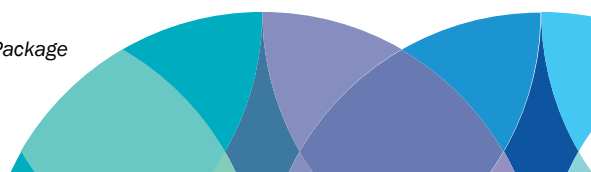
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# 1. USING THIS HANDBOOK

Welcome to the Costing and Pricing Modelling Handbook (revision [Status]) which supports the Service Provider Costing & Pricing Model (version 1.0, **the Provider Model**) and the Single Product Costing & Pricing Model (version 1.0, **the Program Model**).

This Handbook is a component of the ACT Government Tools & Resources to Support Fully Costing Human Services Delivery project. As such, this is one component of a range of tools and supports developed as part of this project and which consist of:

- Costing & Pricing Human Services Framework (A foundation document)
- The Service Provider Costing & Pricing Model (an MS Excel Spreadsheet Tool) – to cost the organisation
- The Single Product Costing & Pricing Model (an MS Excel Spreadsheet Tool) – to cost a particular program
- The Costing & Pricing Model Handbook (Instructions on the use of the above models)
- The Costing & Pricing Provider Training Video Package (4 recorded training videos)
- The Costing & Pricing Government Procurement Training Video (A recorded training resource)

## Important general notice

This document is intended to give users of the Provider Model and the Program Model an understanding of how to use the models, but it is not intended to be a stand-alone resource. Rather, users should consult appropriate professionals when they seek to utilise the models for their own organisation. Additionally, this Handbook does not include descriptions regarding all aspects of the Models nor does it necessarily provide information that is relevant to all human services providers in every situation. While every effort has been made to design the Models and the Handbook to meet the needs of the widest possible audience within the human services sector in ACT, it is unlikely that these resources can mirror each exact situation or the experience of every human services provider or other organisations that might choose to implement this resource. As such, every reader and user of these resources is strongly encouraged to consider every aspect of the Models in the context of their organisation and to consider which elements fit or do not fit in that context.

It is the users' responsibility to ensure they understand how to apply these resources, to ensure they appreciate the suggested responses and outcomes of calculations made by the Models, that they understand how such outcomes may be used or interpreted in terms of their funding arrangements and relationships with funders and also that they undertake a review of the resources to ensure they understand the extent to which there are gaps, errors or omissions relative to their organisation.

All costs and prices are calculated and quoted without considering the effects of the Goods and Services Tax (GST) and its particular application to human services providers.

No responsibility is accepted by the Centre for Public Value, the Centre for Social Impact, the University of Western Australia, or the ACT Government in relation to any errors or omissions, or any loss that might arise out of the usage of these materials.

## Minimum Microsoft Excel 2010 Required

The Models are provided in a Microsoft Excel workbook that runs on Microsoft Excel 2010 or later versions. Earlier Excel versions do not support all features of the Models.

## 2. GLOSSARY

This glossary defines key terms related to costing and pricing generally and that are used throughout this framework. The glossary is also intended for use in training and guidance material to ensure the consistent application of terms.

While not all of these terms are uniformly used across the sector, they are standard terms used in costing and pricing. Therefore, they are used here to support an increase in their uniform use across the sector and between the sector and funders to increase understanding and enhance financial literacy.

Make sure you review this glossary and are familiar with the terms prior to continuing into the framework.

Term	Definition
<b>Accounting cost estimates</b>	Accounting cost estimates are accrual adjustments made to reflect the long-term consumption of resources and are generally not cash items. For instance, depreciation expense is an accounting estimate as is provision for doubtful debts and provision for employee redundancy. Accounting cost estimates reflect that portion of an asset that is consumed in the provision of a service during the period. This is a legitimate cost of service delivery and must be incorporated into the comprehensive cost.
<b>Activities</b>	Activities refer to each of the service types provided by an organisation. This provides the basis for identifying each unit of measurement or a bundle of service delivery units. May also be known as “programs”, “services”, “plans” or “packages”.
<b>Allocation of costs</b>	To determine what a particular part of the organisation costs to run or what a service costs to deliver, you must allocate costs incurred that cannot be directly ascribed to an activity. Costs usually allocated include indirect costs, overheads, and accounting cost estimates. The act of allocating costs is based on commonly used accounting processes but is subjective. Usually, organisations establish policies as a basis for allocation of costs.
<b>Ascription of costs</b>	The costs that are easily identifiable as being incurred as a result of a particular activity are ascribed to that activity. The process of ascription is straight forward and logical. It is objective. An example of an ascribed cost is direct support worker wages.

## Term

## Definition

### Block funding

A set amount of funding allocated by a funder to purchase a set number of activities in a program or to pay for a particular output or outcome. This is different to price funding as the total funding levels are more predictable. Block funding can negatively impact financial sustainability if it is insufficient to cover all costs incurred by the provider because the block funding level is too low or if the number of service delivery units required is too high. Sometimes providers get caught when they agree to provide additional service delivery units without sufficient additional block funding. Block funding is usually paid in instalments throughout the financial year and often in advance of the provision of services and so block funding can be more efficient from the provider's perspective as less working capital is required to be used.

### Breakeven point

The point at which unit of measurement sales volume is sufficient to recover all fixed costs, as well as variable costs, but insufficient to generate a profit. The relevant formula is: total fixed costs divided by the result of unit price minus unit variable costs, or:

$$\frac{\text{Total Fixed Costs}}{(\text{Unit Price} - \text{Unit Variable Costs})}$$

Often, the denominator (unit price - unit variable costs) is referred to as the contribution margin.

### Bundle of activities

A bundle is a group of activities or service delivery units that can be taken together for costing purposes because they are delivered jointly together. Rather than costing individual activities, it can be more efficient to cost bundles if each bundle is the same and each client in a cohort receives the bundle of activities or services. If there are variances in services provided between one client and the next, it is usually not appropriate to bundle the activities.

### Capital

The amount of financial resources required to be invested in an organisation in order for it to provide the services that it is established to provide. It is usually an estimated element within the cost structure of an organisation. An estimate of capital includes such elements as working capital, the net investment in plant & equipment (e.g., the capital invested in IT, real estate/buildings and motor vehicles less any loans) and amounts set aside for the payment of employee entitlements or any other provision that is actually made in cash. The efficient use of capital (both cash and physical resources) as well as the cost of that capital becomes more important in a market-oriented environment.

Term	Definition
<b>Comprehensive cost</b>	The comprehensive cost is the total cost of providing a unit of measurement or a bundle of service delivery units. It includes all direct and indirect costs as well as accounting cost estimates and the cost of capital. It is calculated from time to time as an internal control calculation. It serves to inform those charged with governance of the true cost of service delivery and to provide a figure against which to assess actual funding/pricing received.
<b>Consumption</b>	The actual costs and accounting cost estimates incurred in providing a service. Everything that is consumed in providing a service should be included as part of the cost base of that provision including the exhaustion of volunteer time, donated goods and services and the cost of capital.
<b>Contribution margin</b>	The difference between unit of measurement price and unit of measurement variable cost, the denominator in the formula for the breakeven point. It is called the contribution margin because it is that portion of the unit of measurement price that contributes to the recovery of fixed costs and profit after deducting the unit of measurement variable cost. For example, if the unit of measurement price is \$100 and unit of measurement variable cost is \$34, then the contribution margin is \$66.
<b>Cost</b>	The consumption of economic benefit associated with a past, immediate or deferred outlay of cash. A cost may have been incurred but may or may not have been paid. All costs have two characteristics; they are direct or indirect, fixed, or variable. Recovery of all costs is necessary to ensure an organisation remains sustainable.
<b>Cost driver</b>	The specific activity that can be used as a basis for allocating costs on a pro rata basis. It is the most common element between all activities and is a sound basis for the pro rating of particular costs. For example, a building may accommodate several activities and programs, so the best choice of cost driver to allocate rent might be the floor space or square meterage used by each activity or program. The choice of cost driver is inherently subjective and is never 100% accurate. It should be based on simplicity, materiality, reasonableness and, preferably, consistency from year to year. The reason for choosing a cost driver should be documented as a key assumption. Different costs may be allocated using different cost drivers.
<b>Cost estimation</b>	The process of calculating the expected comprehensive cost for a unit of measurement, or a bundle of service delivery units, for a specific period, usually a year.

Term	Definition
<b>Cost pool</b>	A grouping of costs that will be treated in the same way in a costing process. Generally, pooled costs are those that have similar attributes and are able to be allocated or ascribed together to a particular activity. For instance, all building costs (such as rent, electricity, water, rates, maintenance etc) would be pooled and then the total would be allocated pro rata to each activity based on, say, floor space used. Generally, the more costs included in a cost pool, the simpler the costing process and the less investment required in time and resources to achieve a costing outcome. However, the more costs included in a cost pool, the more generalised the cost estimate and therefore the less accurate the calculation.
<b>Cost recovery</b>	The process of setting a price for an activity so that the comprehensive cost of that activity is repaid. This includes the recovery of the cost of capital and the recovery of accounting estimates and constitutes the profit margin added to the cost of service delivery to arrive at the price.
<b>Costing</b>	The act of allocating and ascribing costs against activities and programs (service delivery units).
<b>Costing period</b>	The period for which an organisation forecasts it's expected costs and seeks to use that data to cost its activities or bundles of activities. Usually, the costing period is the financial year. However, if an organisation feels that the environment is too volatile or that they are unsure of their costs, it can reforecast and re-cast its costing process at any time and for any period.
<b>Deferred expenses</b>	Consumptions related to real expenses, which will be met at some, often unknown, point. Examples are employment expenses associated with annual leave, sick leave, and long service leave. These elements of cost represent a risk, as it is not known when they will be paid or what amount will be paid. The ultimate liability will be based on some future cost. They must be recovered at current values but are likely to be more expensive when they are actually paid (e.g., if an employee's wage increases between the time in which leave was accrued and leave was taken).
<b>Depreciation Expense</b>	The cost of the amount of a tangible asset that was consumed in the delivery of the activity. Rather than recognising the cost of an asset as an expense at the time of purchase, depreciation spreads out the cost of the asset over its useful life (i.e., the time period that it is usable). For example, if an organisation purchases a bus, the bus may have a useful life of 10 years. If an activity requires the use of the bus (e.g., to pick up clients), it would be reasonable for the organisation to include the depreciation of the bus prorated for the activity for the duration of the costing period as part of the comprehensive cost of the activity. Importantly, depreciation is not just an accounting estimate, it is a real cost of service delivery and failure to cover this cost will lead to sustainability threats in the medium- to longer-term.

Term	Definition
<b>Direct costs</b>	A cost that is clearly attributable to an activity. It is incurred as a result of preparing for, undertaking and finalising the delivery of a unit of measurement. An example would be the cost of travel between clients' houses to deliver services.
<b>Direct overheads</b>	Operating expenses incurred regardless of the level of actual activity and in direct support of that activity. Examples include rent of buildings from which services are delivered, salaries of managers who oversee service delivery and program acquittal audit fees—as opposed to corporate audit fees. The essential features of direct overheads are (1) they are incurred only in support of service delivery, and (2) they are fixed regardless of activity level within the context of the relevant range.
<b>Efficient price</b>	The efficient price is an economics term rather than an accounting term. It is the point where an arms-length buyer and an arms-length seller agree on a price. The buyer will not pay more for the item because they can get it for the efficient price elsewhere. The seller will not accept less because then they will not get an appropriate return on their investment and will move their capital into another business. Therefore, the efficient price is determined by market forces reflecting actual and local economic conditions. The efficient price will vary in different markets and for different market segments. The efficient price includes the cost of capital—that is, the return on investment required by the seller in order to make the transaction worthwhile.
<b>Fixed costs</b>	A cost that is incurred regardless of whether activities are undertaken (in contrast to variable costs). So, if the doors are not opened or services not provided, these costs are still incurred. Examples include rent, insurance, and corporate head office staff such as the CEO and could include IT/phone and legal compliance costs. These costs generally remain the same (“fixed”) for the budget period. However, they will change over time and when productivity rises beyond the current capacity of an organisation. In other words, costs are only ever fixed for a certain time and for certain levels of activity. Usually, when activity levels rise beyond the capacity of the organisation so that fixed costs are increased, we say that the organisation has moved out of its relevant range.
<b>Funding</b>	The amount of money paid by a procuring government agency or philanthropists to purchase particular services and/or supports on behalf of a human services provider's clients or directly to the human services provider.

Term	Definition
<b>Human Services</b>	<p>There are many types of human services which are also described in different ways. In line with the scope of services/programs that are defined by ACT Government as Human Services, this Framework uses the term <i>human services</i> to describe:</p> <p><i>...services that provide support for a safe, healthy, inclusive community and in maintaining and promoting its quality of life. That support spans NGOs funded to deliver services across many sectors including safety, emergency and material aid, physical and mental health, housing, child and family, legal, employment, transit, education, recreation and culture. Human services contribute to daily living, to enable individuals, families and other groups in the community to develop, cope, function and contribute. (p10, ACT Government Response to the Counting the Costs Report, 2023)</i></p> <p>Other terms commonly used to describe these services include “community services” and more specific terms such as disability services, aged care services and child support services. The purpose of using the phrase “human services” is to ensure this resource is used as widely as possible and that readers do not perceive that there are restrictions relating to its use.</p>
<b>Incurred cost</b>	<p>A cost that is actually paid or for which a liability exists to pay it at some future point in time. That is, there is a legal obligation to pay the cost regardless of whether cash has changed hands.</p>
<b>Indirect overheads/Indirect costs</b>	<p>Costs that are incurred regardless of the level of activity and not incurred in direct support of service delivery. Usually these would include head-office and other non-service delivery costs. The allocation of overhead costs must be made using a system that is equitable and fair. That is, all activities undertaken, regardless of the source of funding, must support a logically and equitably allocated portion of overhead costs.</p>
<b>Insolvent/Insolvency</b>	<p>When the organisation is in a state where it cannot pay its debts when they are due. This includes payments due to staff and contractors.</p>

Term	Definition
<b>Mark-up</b>	<p>An amount added to unit of measurement cost to arrive at the unit price. It is usually expressed as a percentage and should reflect a policy decision taken at board level. Components include:</p> <ul style="list-style-type: none"> <li>• base mark-up which is the minimum mark-up required to ensure sustainability and achieve the strategic plan;</li> <li>• an estimate of the cost of capital invested in the NFP to allow it to operate; and</li> <li>• risk mark-up which is intended to reflect risk associated with a particular program or service.</li> </ul> <p>Programs can have different mark-ups. However, all mark-ups used should be considered in the light of the activity levels and profit required for sustainability.</p> <p>The mark-up is different to the contribution margin as the former equates to a reward for risk and effort while the latter is simply a description of the amount of the income from the sale of a service left over after variable costs have been met.</p>
<b>Materiality</b>	<p>Costs and activities that represent the bulk of the work of an organisation. An activity or program is material if it constitutes a significant proportion of the organisation's work, and it will have an impact on the organisation's sustainability and capacity.</p>
<b>National Standard Chart of Accounts</b>	<p>The National Standard Chart of Accounts (NSCOA) is an accounting tool to help not-for-profit organisations and funders. The NSCOA includes a chart of accounts for accounting systems and a data dictionary to explain which transactions should be recorded in which accounts, as well as relevant Australian Accounting Standard references, legal/taxation references, and links to other reference material.</p>
<b>On-costs</b>	<p>Employee-related costs that are additional to gross salaries. These include annual leave, long service leave, superannuation, workers' compensation insurance and award allowances and penalties. They may be paid during the period or incurred and paid at a later date. Care should be taken when costing expenses that are paid at a later date to ensure the full cost is recovered. For instance, annual leave may be paid at a later date and at a higher rate of pay because annual leave is paid at the prevailing rate of pay at the time of payment, not that rate of pay that was relevant and the time of incurring the cost.</p>
<b>Overheads</b>	<p>A category of expenses usually incurred at a corporate or high level within the organisation. They are usually costs that cannot be attributed directly to an activity and will be incurred regardless of whether activities are provided. Examples of typical overheads include the CEO salary, head office expenses and directors' and officers' liability insurance.</p>

Term	Definition
<b>Price achieved</b>	The actual price paid by a funder/or purchaser for the unit of measurement provided.
<b>Price funding</b>	The situation where the funder purchases a service or support on behalf of a service user using a single iteration price. Therefore, the service provider only gets paid in accordance with the number of successfully completed services multiplied by the price per service offered by the funder. This is an increasingly common funding method but also means the risk of under-provision (for instance, when the service user does not make themselves available for the service or support to be delivered) is absorbed by the provider and this can have significant negative impacts on provider financial sustainability. Additionally, service providers paid in this way are usually paid after the service has been provided and this can take over a month in some instances. As such, the service provider must also plan for the use of their own capital (called working capital) to pay for staff and other operating expenses while awaiting payment from funders.
<b>Pricing</b>	<p>The process whereby an organisation establishes the price it wishes to charge for the delivery of an activity. This price should be based on the comprehensive cost of a unit of measurement and include a mark-up. The formula is usually described as:</p> $\text{Target Price} = \text{Comprehensive Cost} + \text{Mark up}$
<b>Price Paid</b>	The amount paid (i.e., ‘price achieved’) by a procuring government agency or philanthropist for services and/or supports to be provided. Prices may be established for human services providers or directly for their customers. This term has the same meaning as ‘funding’ and may include block funding arrangements or individual funding arrangements.
<b>Productivity</b>	The proportion of a staff member’s time spent providing services directly to clients. It is time for which the organisation is paid and might include “client-facing” activities as well as preparation and post-service activities such as model development, care planning and maintaining client service notes. However, productive time is the time for which an hourly rate or some other price is paid. It is usually described as a percentage figure calculated by dividing the productive time by the total time the employee works. The productivity calculation is used to determine the staffing levels required in order to achieve the expected service delivery output upon which the costing and pricing of the organisation is predicated. The productive time is the chargeable time against which all of the comprehensive costs of service delivery must be recovered. This is sometimes referred to as the “client facing ratio”.

Term	Definition
<b>Provider</b>	Funded not-for-profit, charity or commercial organisation that delivers services and supports in human services and which is the focus of costing and pricing in this resource package. These entities are often also referred to as service providers.
<b>Profit</b>	Profit is that figure that remains after the subtraction from income of all consumptions (expenses) incurred during a particular period. It is necessary for an organisation to make a sufficient profit – whether a not-for-profit or other type of entity - in order to maintain sustainability in the short-, medium- and longer-term. It is not a surplus as the amount retained by the organisation is necessary to ensure ongoing solvency, viability, the provision of adequate working capital and to provide the financial capacity for asset replacement and other renewal processes. If a charity or not-for-profit does not make a profit it will not be able to maintain its capacity over the long-term and may well also become insolvent in the short-term. Profit builds balance sheet strength which then builds organisational capacity. As such, it is an essential financial outcome for organisational sustainability.
<b>Recovery risk</b>	The risk that the price achieved is insufficient to recover the comprehensive cost of service delivery.
<b>Relevant range</b>	The level of activity in which the assumptions made about fixed and variable costs are true. For instance, if activity increases beyond a certain level, it may be necessary to increase fixed costs by employing a general manager or leasing more office space. Additionally, such an increase may cause the variable costs to be reduced as a result of economies of scale or to increase as a result of diseconomies of scale.
<b>Risk Mark-up/Risk Premium</b>	A mark-up which is intended to compensate for the recovery risk associated with a particular program or service.
<b>Safety margin</b>	When an organisation is paid according to the number of specific service delivery units it provides, it must provide a certain number of service delivery units before it can breakeven. If it does not do so, the organisation will not cover its overheads. As such, the safety margin is the difference between the budgeted activity volume and the calculated breakeven point volume. It represents a buffer against an unexpected fall in activity volume that could result in a potentially loss-making level of activity. As such, the safety margin is the difference between what level of activity you expect to undertake and the level of activity required in order to break even in financial terms and is relevant to those programs funded using a price for each unit of measurement rather than block funding for a specific number of service delivery units. Safety margin is not the same as profit.

Term	Definition
<b>Service delivery unit (SDU)</b>	The provision of a single or multiple service delivery units. This can be measured in hours-of-service delivery, trips in a transport service and so on. It is also described as the activity levels.
<b>Service Mix</b>	The combination and number of services and supports a service provider offers to service users.
<b>Service provider</b>	Funded not-for-profit, charity or commercial organisation that delivers services and supports in human services and which is the focus of costing and pricing in this resource package. These entities are often simply referred to as providers.
<b>Service user</b>	The individual or group of people who are in receipt of supports or services provided by the provider and funded by the service funder. Other terms used include “client”, “recipient”, and “consumer”.
<b>Small-demand markets</b>	A market where there is limited call for particular services. This can be because the services are of such a unique or specific nature or address a particular need that is uncommonly required even in large population centres. Small-demand markets may also be identified where there is a small overall population in a particular area and, as such, a commensurate small-demand for the service across the board. Often, this second type of small-demand market occurs in rural and remote areas and is sometimes referred to as a “thin market”.
<b>Solvent/Solvency</b>	The state of being able to meet long-term financial obligations, that is, being able to all costs, including staff and contractor costs, when they are due.
<b>Span of control</b>	Relates to the supervision of service delivery. It is used to denote the number of service delivery service delivery units (e.g., hour of service, trip, or bed day) or active staff able to be supervised by one supervisor and is usually described as a ratio. For instance, where a supervisor has the capacity to oversee 15 service delivery units the ratio would be described thus: 15:1. Many parts of the sector would describe this idea as the supervisory ratio and most would denote it in terms of numbers of people controlled rather than number of service delivery units controlled or overseen.
<b>Standing ready to provide a service</b>	A human services provider is standing ready to provide a service if it has irreversibly committed resources to an attempted service delivery. If a client does not attend for a service, is unavailable or is unwilling to receive a service, the organisation will still incur all of the costs associated with delivering the unit of measurement save for the usually immaterial value of variable costs. The costs that can be avoided by not delivering a service are typically very small components of the comprehensive cost.

Term	Definition
<b>Sustainability</b>	The state of having sufficient financial and workforce capacity to consistently provide supports and services in the right quantity, at the right quality, at the right location, with the right timing.
<b>Target price</b>	The ideal price the organisation would want to charge for its services after taking into account the comprehensive cost and the margin required for sustainability and to achieve the organisation's financial plan. It is not calculated with reference to the actual price achieved but may be used to assess it and to develop financial management strategies.
<b>Target price gap</b>	The difference (positive or negative) between the targeted price arrived at following a costing and pricing exercise and the actual price achieved from the funder.
<b>Unit cost</b>	The cost of delivering each unit of measurement after allocation of all costs; both direct and indirect. Unit cost plus mark-up equals unit price.
<b>Unit Price</b>	The fee actually paid by a client or funder for a service or support.
<b>Utilisation</b>	Where a service provider successfully delivers a unit of measurement to a client, at an agreed time and at an agreed location. It is at this point that the service provider is able to invoice a client for a service. Utilisation includes instances where a service provider stood ready to provide a service at an agreed time and an agreed location but was unable to do so, due to the client's non-attendance, unavailability, or unwillingness to receive the service. This only applies when the service provider can no longer redirect resources to another client.
<b>Variable costs</b>	Incremental costs incurred whenever additional service delivery units are supplied (to be contrasted with fixed costs) and are considered to be uniform for each additional unit of measurement, although these costs do not necessarily have a lineal relationship to activity levels. Generally, we would say that these costs would not be incurred if the doors were not open and services not provided. Examples include support staff costs, fuel for vehicles used in providing a transport service, meals for clients in accommodation services and telephone calls. An understanding of variable costs is necessary when using the breakeven point analysis.
<b>Volume</b>	The level of activity undertaken. For instance, the number of service delivery units actually provided. The volume can be forecast and actual.

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## Term

## Definition

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### Working capital

The level of cash required to operate the organisation. Usually, it is calculated as current assets (focusing on cash and assets readily converted to cash such as debtors) minus current liabilities (focusing on creditors and bank overdraft). Working capital requirements are calculated by considering the amount of money required to pay staff and other operating expenses before the funder pays their funding. As such, working capital requirements are often higher where funders use price funding rather than block funding as the service generally must be provided before the funder pays for it.

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## 3. COSTING AND PRICING PRINCIPLES

The following presents a brief overview of the costing and pricing principles that underpin the Models. Users are encouraged to consult the Costing and Pricing Framework for more detail to build capacity in costing and pricing.

The purposes of costing and pricing in the context of the ACT Government Tools & Resources to Support Fully Costing Human Services Delivery project are:

1. To establish the true cost of each service delivered by human services providers inclusive of all resources consumed in that process; and
2. To enable human services providers to determine a service delivery price that ensures long term organisational sustainability.

### Costing

To assist in achieving those purposes the following general principles underpin this Handbook and the Models:

- Costing is a forecasting and iterative process. Changes to the operating environment, particularly in industrial awards, as well as past costs from previous financial records and statements are valuable guides to future costs.
- Organisations need to forecast the cost of delivering each service they provide (referred to as Service Delivery Units) and the cost of commercial activities (i.e., provision of goods and services for the purpose of generating income), fund raising activities or other non-service delivery activities.
- In determining the cost of delivery for each service, decisions are required as to allocation of costs to those services entailing inherently subjective judgements particularly relating to Indirect Costs.
- The allocation of costs is a subjective process involving arguable assumptions that will never attain perfection.
- There is cost incurred in undertaking a costing exercise in both time and money and the more complex and detailed the process is, the more it will cost. That cost incurred should always be outweighed by the benefit derived. At times, it will be better to allocate costs less precisely than to expend time and money in achieving unattainable perfection. Materiality is a key consideration in this regard.
- The allocation of costs entails apportioning costs based on cost drivers which can be, for example, the number of staff involved in the delivery of each service, income produced by each service or hours of service delivery. Cost Drivers must be relevant to all programs over which costs are to be allocated.
- A decision on Cost Drivers should be underpinned by an objective of equitable allocation ensuring that all service delivery programs, both funded and non-funded activities (for instance, fundraising and commercial activities), bear an appropriate share of costs.
- All costing and pricing assumptions, policies and calculations should be documented and transparent.

## Mark-up and price

Once the costing process is completed, it is necessary to determine a mark-up and derive a price. This may be a confronting and foreign challenge for organisations given that previous funding and service delivery arrangements have been based on set rules and parameters. There are few guiding precedents for setting mark-ups and prices and there is the ever-present reality that mark-ups will invariably be influenced by the willingness and capacity of funders to pay. Funders will also be approaching this subject from a standpoint of no prior experience.

Some strategic considerations may include:

- That the overarching objective of a mark-up is sustainability – including financial and service sustainability and ongoing capacity building and development
- The unsustainability of pricing based on cost recovery alone
- A mark-up to reflect and contribute to the achievement of goals contained in 3-5 year strategic and similar length financial plans that are documented and rationalised to withstand scrutiny
- An annual budget that reflects a 3-5 year financial plan with both costs and prices translating into the annual budget
- A mark-up with two elements, one being a base mark-up to achieve financial plan goals and the other a risk mark-up to reflect operational risks
- Whether to use pre-existing financial reserves instead of risk mark-ups as a buffer against unforeseen costs (e.g., program termination costs or under-recovery of fixed costs due to lower than expected service delivery volumes)
- The importance, from a mission standpoint, that a particular service be offered and the influence this may have on the mark-up for that service
- Probability that negotiations with funders will precede final agreement on prices
- Competition and funder expectations likely impacting upon the achievability of a desired mark-up (so organisations should prepare for price negotiations with funders)

NOTE: The Costing and Pricing Models allows for different mark-ups in circumstance where the required return for individual programs or accommodation services vary.

## Federal / ACT inconsistencies

Inconsistencies between the relative approaches of ACT and federal funding agencies will be a feature of the Sector's ongoing funding landscape. Foreseeably, ACT funding agencies will be bound by the Territory government's procurement reforms and federal funding agencies will likely continue using existing arrangements.

In managing such inconsistencies, it is suggested that costing and pricing be undertaken regardless of the terms of particular funding arrangements. Organisations should consider the prevailing arrangements between them and funders a step beyond the costing and pricing process.

Organisations funded by ACT and federal agencies may be guided by the following:

- (a) All costs should continue to be allocated according to cost drivers. Only then may any cross-subsidisation or over- or under-funding of programs be identified thus enabling remedial action. Accurate costing, regardless of funding arrangements, is vital information to management and supports the committee/board in their deliberations.

- (b) Cross-subsidisation between ACT and federally funded programs will become more apparent and potentially transparent as a consequence of using the Models.
- (c) Historically, a funder's requirement that certain business rules be adhered to has been addressed by organisations at the acquittal stage which occurs subsequent to the costing and pricing process. An example of this is a requirement that administration costs be capped at a certain percentage of funding.

## *Preparing for transparency in funding negotiations*

Procurement reform, and use of the Models, presents an opportunity for greater transparency as to costs and prices. Such transparency may well assist organisations in their negotiations with funding agencies.

Furthermore, inevitable differences in costs and prices arrived at within the human services sector may well necessitate each organisation being more transparent towards justifying particularly higher costs and prices.

Therefore, it may be wise to prepare for greater transparency and the opportunities that could present. Such transparency could extend to substantiating methods of cost allocation supported by documented assumptions, considered discussions, and policies on reasonableness and consistency at board and executive management level.

Organisations should give consideration to the documentation they should keep regarding the costing and pricing processes to ensure they can meet any funder expectations as well as support their pricing submissions. Furthermore, the documentation maintained should enable the passing on of knowledge in the event of board and management personnel changes.

The keys to a system of costing and pricing are robustness and defensibility which includes sound decision making processes and policies and record keeping and documentation.

## 4. GOVERNANCE AND THE COSTING AND PRICING PROCESS

Ideally, the costing and pricing process is part of a broader and integrated organisational financial management process which would generally be comprised of the following elements:

- A strategic plan providing a three- to five-year overview of an organisation's aspirations
- A financial plan (usually also three to five years) that describes the financial resources required to achieve the strategic plan and the source and application of those resources
- An annual budget showing how the financial plan will be implemented each financial year
- A costing and pricing model with the twofold purpose of (1) full recovery of service delivery costs and (2) the generation of a surplus on that activity consistent with the financial plan
- Policies and procedures for (1) the setting of cost allocation assumptions, (2) identification of Service Delivery Unit volumes necessary to achieve cost recovery and expected profit, (3) authorisation of mark-ups and prices, and (4) periodic review of costs, mark-ups and prices to ensure ongoing relevance
- A governance and reporting process ensuring the board and senior staff become aware of cost recovery achieved and mark-ups realised enabling timely managerial focus on necessary remedial action
- Exercise of due care by executive management and board/committee members in the discharge of their responsibilities
- The board oversees the costing and pricing process in accordance with its policies. This may include the appointment of a costing committee or the allocation of responsibility to its finance or service subcommittee depending on the size and complexity of the of the organisation. Remember that the cost of pricing in time and money must be offset by the benefit arising.

This suggested integrated costing and pricing approach minimises arbitrariness, provides organisational context and relevance to decisions making, defines responsibilities and strengthens discussions with funders through demonstrable logic and transparency.

However, to maximise the benefit of this approach constant managerial and Board-level vigilance is required. Processes need to ensure that organisations become aware at regular intervals of the effect of changes to the operating environment, both internally and externally, to enable appropriate remedial action. Unanticipated cost increases must be identified early and mitigating actions must be prompt.

As the operating environment of most organisations is dynamic, involving continually changing costs, the calculation of costs and setting of prices just once annually is discouraged. The review of costs by the Cost Committee or the whole board should occur regularly and may include the following considerations:

- Whether forecasted costs materialised (with focus on under-estimated costs)
- Whether forecasted service volume was achieved
- Whether surpluses as expected were resulted
- Whether costs allocated to commercial and fundraising operations were recovered and, if not, the extent to which non-recovery impacted upon capacity to achieve financial goals
- Identification of causes of cost variances and remedial action to be taken

- Renewal of forecasts going forward with a focus on reasonableness in an historical context
- Reporting and documentation of review finds
- Changes to governance processes, including budget development and monitoring processes.

## 5. HINTS AND TIPS

When using this Handbook and the Models, the following tips might be useful:

- Always keep a blank master copy of the Models (i.e., prior to entering data, save the Models under another name and leave the master copy untouched).
- Develop a file naming convention to reflect different uses of the Models and to ensure that a history of costing exercises is retained. Different uses could reflect, for instance, interim or final versions, stages of board scrutiny, alternative cost allocation methodologies, different service volume levels or what-if scenarios.
- Keep working papers that support data entered in the Models. It is sound practice to make notes regarding your off-spreadsheet calculations, costing decisions and subjective judgements and assumptions. Subsequent referral to your notes may be necessary when negotiating with funders.
- Always check for reasonableness when entering data in the Models and reviewing the costing results. Never assume the workbook is correct – EVER. Ask questions like:
  - How do the costs compare to last year?
  - Is this income achievable?
  - Is this what I expected?
  - Does that make sense?
  - Are unexpected costing results explainable?
- When entering data (particularly cost allocation data) always check to ensure there are no red highlighted errors before proceeding to the next worksheet.
- Historical accounting information and annual budgets are the best place to start a costing exercise.
- Costing and pricing is most effectively undertaken through enterprise-wide engagement with all levels of management and should not be isolated within the accounting department.

## 6. THE MODELS

There are two MS Excel costing and pricing models included in this resource package. These are:

- 1) Service Provider Costing and Pricing Model
- 2) Single Product Costing and Pricing Model

The first model (Service Provider Costing and Pricing Model) comprises capacity to cost and price an organisation's operational activity across all areas and programs for one year. The organisation should use this model for budgeting and sustainability assessment at the organisation level. Changes in economic circumstances, cost levels and client needs over time all impact the sustainability of the organisation and so the model can be used to examine what-if scenarios, re-cost and price iteratively throughout the financial year and can be updated for changes in assumptions as experience allows organisations to become more adept at forecasting their costs and income over time. It is designed to allow an organisation to cost over one year as it is intended to support implementation of a sustainable budgeting process.

The second model (Single Product Costing and Pricing Model) is designed as a tool to support decision making when an organisation is contemplating providing a new service, expanding a current service materially and/or responding to an invitation to accept funding or provide a tender response. As such, the model is focused on forecasting the contribution margin (i.e., the portion of the service delivery unit price that contributes to the recovery of fixed costs) that would be achieved should the single service change take place. Therefore, it is designed to assist organisations to forecast direct costs associated with the new element together with any capital funding requirements needed to be fulfilled in order to meet the service delivery obligations.

The Single Product Costing and Pricing Model also allows organisations to forecast the contribution margin forecast over a five-year period for the new model. It does this in order to allow the future impacts associated with the prospective service addition to be considered as part of the decision-making process. For instance, this model does not provide for the costing of overheads except where overheads are likely to be increased by the undertaking of the proposed new program. If there are no additional overhead costs, the only calculation that needs to be made is of the income earned and the direct costs incurred which are additional to costs being incurred prior to the proposed new service. As such, in the single product model we are costing to the contribution margin.

The Models are designed for use within the human services sector to capture all costs, to allocate those costs to the delivery of units of service and apply a mark-up to arrive at a targeted price for those units of service. The Models are comprised of ten principal worksheets, some of which will not be relevant to all human services providers. Users should understand how each worksheet works before relying on any inbuilt costing and pricing formulae and ensure that all elements are the best resource for their specific requirements before undertaking a costing exercise.

Additionally, over time, Excel spreadsheets can be changed by personnel, sometimes unintentionally and sometimes intentionally, and so it is also important to conduct timely reviews of the formulae and connections between sheets to ensure errors are not being built into your costing process.

# 7. NAVIGATING THE MODELS

## Structure

The **Key\_Data** worksheet records information that either automatically populates other cells or influences calculations throughout the workbook.

The **People, Property, Vehicles, Direct\_OH, and Indirect\_OH** worksheets are for entering program-specific source cost data and conversion of those to annual costs.

The **Capital\_Purchases** worksheet (in the Program Model) is for entering purchases of assets for new programs.

The **Program\_Pricing, Accommodation\_Pricing, and Health\_Professionals\_Pricing** worksheets use the annual costs and other data collected by the People, Property, Vehicles, Direct\_OH and Indirect\_OH worksheets to calculate unit costs and prices. The Program\_Pricing worksheet also assists in checking that the internal generation of funds via commercial and fundraising activities occurs with full and appropriate cost recovery.

The **Client\_Pricing\_Calculator** (in the Provider Model) worksheet enables individualised quoting from a menu of available services.

The **Funding\_Sources** and **Funding\_Summary** (in the Provider Model) worksheets collate funding from different sources to assess the target price gap and the mark-up achieved.

The **Multiyear\_Pricing** (in the Program Model) worksheet enables program costing and pricing forecasting for up to five years.

## Conventions

A Conventions worksheet describes the visual look and feel of the Models. In summary, cells requiring input will be shaded **light blue** (regular input), **blue** (choose from a dropdown menu) or light green (Administrator set-up). Cells intended for input are unprotected and they are the only cells editable when worksheet protection is enabled.

Ensure that any short titles given to programs or properties are meaningful as they will be used to label relevant columns in other worksheets to assist with cost allocation.

Columns that are not applicable will automatically populate with the heading “NOT IN USE”.

## Data integrity checks

The Models utilise a number of checks for mathematical accuracy (e.g., that two cells which should be equal are equal). Cells which contain a check formula will turn red if they return an incorrect result and either display the result or the message “**ERROR**”. The appropriate action is to review and correct the input data.

Users should not rely solely on these cells to ensure accuracy of work undertaken. Unlike accounting systems, the Models do not utilise the self-correcting feature of double entry bookkeeping. Hence, extra care is required to ensure that all costs are captured so repeated referral to historic costs recorded in your accounting system is encouraged. The data integrity checks cannot and do not test for omitted or erroneously entered costs.

## 8. HOW TO COMPLETE THE PROVIDER MODEL

Follow these step by step instructions as a guide to completing the Provider Model. Leave blank any worksheets that are not applicable to your organisation or which you think can be undertaken outside of the Models and in a way that is more relevant to your operations.

Additionally, you should be aware that this Handbook is likely to change in the future as further refinement is made to the Models.

Funders may also find it useful to refer to the model when costing new policy and program initiatives.

### *Information*

Establish the identity of the workbook. In this worksheet, enter information in the light green cells.

Step 1.1: Enter identifying information:

- Organisation The name of your organisation
- Year The year to which the data relates (whether calendar year, July-to-June financial year or other)
- Prepared by The name of the person or team who prepared the data for the Provider Model and populated the Provider Model
- Reviewed by The name of the person who reviewed the populated Provider Model and endorsed it for approval
- Approved by The name of the person who approved the populated Provider Model

### *Version Control*

Record the workbook version to keep track of drafts. In this worksheet, enter information in the light green cells.

Step 1.2: Enter version information:

- Rev Revision. Use alpha names to indicate drafts (e.g., Rev A, Rev B, Rev C) and numeric names to indicate final versions (e.g., Rev 1)
- Date Created The date the revision was prepared
- Author The name of the person or team who made the revision
- Comments Details about what was changed between versions

## Key data

The Key\_Data worksheet is the primary reference resource in the Models. In this worksheet, enter information in the light green cells and select from the drop down menus in the blue cells, for sections 1 to 4.

Step 2.1: Enter whole of payroll information – this information relates to your organisation. As such, if you pay above award rates or provide differing leave arrangements, these elements need to reflect this situation. However, the data here will be used to extrapolate the calculations on the “People” worksheet:

- Standard working hours per week
- Annual leave weeks per year
- Public holiday weeks per year
- Sick leave maximum entitlement weeks per year (Maximum staff can access)
- Annual leave loading rate (%)
- LSL rate (%)
- Agency uplift rate (%)
- Superannuation rate (%)
- Workers compensation rate (%)
- Payroll tax rate (%)

The details entered in here will be called upon by the “People” worksheet and prorated for each staff member by the “People” worksheet based on how much of their work is allocated to each program. As you enter the above information, the empty white cells will populate. As such, the above information is the base data needed to make the calculations specific to your entity in the “People” worksheet.

LSL default is 1.85% in line with the ACT Government portable long service leave scheme for the community sector levy payable to the ACT Government Long Service Leave Authority. (Website: [here](#))

Step 2.2: Enter Accommodation Services information (if applicable: where your organisation provides accommodation services. For instance in aged care or disability services. This element does not relate to administrative accommodation or non-accommodation service delivery accommodation). For each house:

- Address or other identifier
- Short name (maximum 10 character name which will appear in subsequent worksheets)
- Number of beds available
- Occupancy rate (%)
- Indicate whether there is a client fee for service (using the drop down menu).

If your organisation does not provide Accommodation Services, leave this section blank and go to Step 2.3.

Step 2.3: Enter Health Professional information related to the provision of allied health services such as physiotherapy or OT services (if applicable). For each health professional type:

- Classification (e.g., Physiotherapist)
- Short name (maximum 10 character name which will appear in subsequent worksheets; e.g., “physio”)

Note that this table is for you to specify the different types of health professionals you deploy to provided health services/allied health services to clients as separate products. You do not need a separate line for each staff member. For example, if you have 10 physiotherapists and five psychologists on staff, you only need to enter “Physiotherapist” and “Psychologist” once. Each individual staff member will be identified in the “People” worksheet.

If your organisation does not employ allied health professional personnel, leave this section blank and go to Step 2.4.

Step 2.4: Enter Program information. For each program:

- Title
- Short title (maximum 10 character name which will appear in subsequent worksheets)
- Type of Service Delivery Unit (SDU)
- Number of SDUs per year
- Indicate whether there is a client fee for service (using the drop down menu).

Sections 5 to 10 do not require input as they contain the standard information that is used to build the model.

## People

The People worksheet gathers all payroll costs for all services and assumes fortnightly rostering. In this worksheet, enter information in the **light blue** cells and select from the drop down menus in the **blue cells**. The worksheet caters to all categories of personnel expected, including:

- Direct service delivery personnel – like Support Workers who deliver direct client services
- Direct and indirect overhead personnel – those who provide executive or middle management and administrative support

Step 3.1: Enter identifying information. For each person:

- Position
- Cost type (direct or indirect)
- Employment type (full-time/part-time, casual or consultant)
- Average number of hours worked per fortnight
- Budgeted pay rate per hour (\$)
- Proportion of annual leave taken (%)

List all employees or positions under 'Position'. If several people work identical shifts for the same pay they may be grouped on one line (with the aggregate number of hours recorded under 'Average number of hours worked per fortnight') however this will lock you into applying one set of backfill rules (see step 3.4) for everyone in the group.

Ensure that all likely new positions have been included having regard for new programs or changes in client mix and intensity of support.

For employment types casual and consultant the 'Average number of hours worked per fortnight' should be calculated as annual budgeted hours divided by 26 fortnights.

The proportion of annual leave taken (which can be any positive percentage value no greater than 100%) impacts on the calculated provision for annual leave expense. If the full annual leave entitlement is expected to be taken (i.e., 100%) then no provision for annual leave expense will be calculated. If less than the full annual leave entitlement is expected to be taken (i.e., any positive value less than 100%) then a provision for annual leave expense will be calculated.

Step 3.2: For each person, enter the annual amount of allowances the person will be entitled to. To avoid complexity there are no separate calculations in the Models for all the different possibilities (e.g., motor vehicle allowances, travel allowances, sleep over allowances, public holiday penalties) so you will need to prepare your own calculation and enter the result. Refer to your historical financial and payroll records to ascertain an average cost for these allowances.

Consider that you can choose to load regular allowances into the 'budgeted rate per hour' so the calculation is done for you.

Step 3.3 For each person, enter the cost of providing for compulsory redundancy payments in the year. This will depend on the award the employee is covered by and the period of continuous service.

- Step 3.4: Select backfill options information. For each person:
- Will annual leave be backfilled? (1=yes, 0=no)
  - Will sick leave be backfilled? (1=yes, 0=no)

The Provider Model assumes that all hours of leave backfilled for a person will trigger the utilisation of agency personnel at a cost of the 'budgeted rate per hour' x (1 + agency\_uplift\_rate). This uplift factor acts as a proxy for the other alternatives to backfilling leave which also come at a higher cost than the standard rate (i.e., overtime, casuals). Note that the agency\_uplift\_rate is pulled from the Key\_Data worksheet populated in Step 2.1.

- Step 3.5: Review the calculated 'Total employment costs' for each person. Do these total costs look reasonable compared to historical costs?
- Step 3.6: Using subjective judgement assign cost to programs by entering percentages in the 'Allocation to programs %' columns. Any costs not allocated to a program default to Indirect OH. Any over-allocation (i.e., allocation greater than 100%) will trigger an **error** indicator.
- Step 3.7: If applicable, assign cost allocated to 'Accom' to individual houses by entering percentages in the 'Allocation of 'Accom' portion to houses % (if applicable)' columns. Any costs not allocated to a house default to the first house on the list in the 'Key\_Data' worksheet. Any over-allocation (i.e., allocation greater than 100%) will trigger an **error** indicator.

If your organisation does not provide Accommodation Services, skip these columns and go to Step 3.8.

- Step 3.8: If applicable, complete the 'Health Professional activity' section for each relevant person by:
- choosing a classification
  - entering the number of service delivery units (SDU's) that person is expected to deliver per hour of work

Scroll down to the 'Health Professional activity' summary table and indicate whether there is a client fee for service, using the drop down menu.

If your organisation does not provide allied health services, skip these columns and go to the 'Property' worksheet.

## Property

The Property worksheet gathers the costs of all owned, mortgaged and rented buildings including those used for accommodation services. In this worksheet, enter information in the **light blue** cells.

Step 4.1: List all buildings in the 'Property description' column. Using property addresses is suggested. If applicable also enter an identifier (e.g., a short name) for each property.

The properties used for Accommodation services (entered in the 'Key\_Data' worksheet) automatically populate at the bottom of the list (Ref 11 – 25) so be sure not to double-up.

Step 4.2: Enter values for the annual cost of rent or notional rent, loan interest and depreciation in the relevant columns; noting that depreciation will only be relevant for properties which are owned.

Step 4.3: Enter all other annual costs for each building in the remaining columns. Add more columns if required. The 'Total annual costs' column will display the sum of all values entered.

Step 4.4: Determine a basis for allocation of building costs to programs and enter a description of the service delivery unit (e.g., floorspace, FTE, revenue, %) in the 'Allocation SDU description' column.

Step 4.5: Enter the base (i.e., total) value being allocated in the 'Allocation base SDU's' column.

Step 4.6: Using subjective judgement assign cost to programs by entering values (in SDUs) in the 'Allocation to programs SDU' columns. Any costs not allocated to a program default to Indirect OH. Any over-allocation (i.e., allocation greater than 'Allocation base SDU's') will trigger an error indicator.

Step 4.7: If applicable, assign cost allocated to 'Accom' to individual houses by entering dollar values in the 'Allocation of 'Accom' portion to houses \$ (if applicable)' columns. Any costs not allocated to a house default to the first house on the list in the 'Key\_Data' worksheet. Any over-allocation (i.e., allocation greater than the total value allocated to Accom) will trigger an **error** indicator.

If your organisation does not provide Accommodation Services, skip these columns and go to the 'Vehicles' worksheet.

## Vehicles

The Transport worksheet gathers the costs of owned, leased and rented motor vehicles used for any purpose. In this worksheet, enter information in the **light blue** cells.

- Step 5.1: Enter details of all motor vehicles in the 'Vehicle description' and 'Registration' columns.
- Step 5.2: Enter values for the annual cost of rent or notional rent, loan interest and depreciation in the relevant columns; noting that depreciation will only be relevant for vehicles which are owned.
- Step 5.3: Enter all other annual costs for each vehicle in the remaining columns. Add more columns if required. The 'Total annual costs' column will display the sum of all values entered.
- Step 5.4: Using subjective judgement assign cost to programs by entering percentages in the 'Allocation to programs %' columns. Any costs not allocated to a program default to Indirect OH. Any over-allocation (i.e., allocation greater than 100%) will trigger an **error** indicator.
- Step 5.5: If applicable, assign cost allocated to 'Accom' to individual houses by entering dollar values in the 'Allocation of 'Accom' portion to houses \$ (if applicable)' columns. Any costs not allocated to a house default to the first house on the list in the 'Key\_Data' worksheet. Any over-allocation (i.e., allocation greater than the total value allocated to Accom) will trigger an **error** indicator.

If your organisation does not provide Accommodation Services, skip these columns and go to the 'Direct\_OH' worksheet.

## Direct overheads

The 'Direct\_OH' work worksheet gathers all costs (other than Payroll, Property and Vehicle costs) that are incurred on specific programs. Examples of costs include insurance, licences, membership fees, acquittals/audits, and cybersecurity but they must be specific to a particular program otherwise they are indirect overheads. In this worksheet, enter information in the **light blue** cells.

- Step 6.1: Enter all overheads incurred directly on individual programs in the appropriate column. If an overhead (or portion of an overhead) cannot be directly allocated to a program, the cost can be allocated to the "Indirect OH" column. The 'Total annual costs' column will display the sum of all values entered.
- Step 6.2: If applicable, assign cost allocated to 'Accom' to individual houses by entering dollar values in the 'Allocation of 'Accom' portion to houses \$ (if applicable)' columns. Any costs not allocated to a house default to the first house on the list in the 'Key\_Data' worksheet. Any over-allocation (i.e., allocation greater than the total value allocated to Accom) will trigger an **error** indicator.

## Indirect overheads

The 'Indirect\_OH' worksheet gathers all indirect costs that cannot be immediately allocated to programs which are typically associated with program specific executive management and administration support. For instance, these costs may include quality standards adherence, accreditation, audit/acquittal costs, insurances etc. Middle management costs can be included here, however, some of those costs may be more appropriately entered as direct overheads. In this worksheet, enter information in the **light blue** cells.

- Step 7.1: Check that values have pulled through from the other worksheets (People, Property, Vehicles, Direct\_OH).
- Step 7.2: Determine a basis for allocation of indirect costs to programs and enter a description of the service delivery unit (e.g., floorspace, FTE, revenue, %) in the 'Allocation SDU description' column.
- Step 7.3: Enter the base (i.e., total) value being allocated in the 'Allocation base SDU's' column.
- Step 7.4: Using subjective judgement assign cost to programs by entering values (in SDUs) in the 'Allocation to programs SDU' columns. Any over- or under-allocation (i.e., allocation greater or less than 'Allocation base SDU') will trigger an **error** indicator.

## Program pricing

The 'Program\_Pricing' worksheet collects the cost data entered on the People, Property, Vehicles, Direct\_OH, and Indirect\_OH worksheets and calculates Unit Cost and Unit Price of all program services (other than for Accommodation and Health Professionals which have dedicated worksheets, see below). As such, it provides focus to the ultimate objective of the Models. In this worksheet, enter information in the **light blue** cells. For each program:

- Step 8.1: Note the calculated cost per SDU.
- Step 8.2: Enter the desired base and risk mark-ups.
- Step 8.3: Note the price per SDU.
- Step 8.4: If you wish to compare the calculated price per SDU to a previous price then enter the previous price and note the change in \$ and % terms. The result may prompt you to revisit the data you have entered for the program. The same option is available in aggregate for all programs in columns to the right of the main table.
- Step 8.5: Review the profit and loss projection. This enables you to assess, at a glance, the profitability of the program after a price has been determined and all costs have been allocated.
- Step 8.6: Review the break-even analysis. The break-even point is where SDU volumes are sufficient to recover all costs but insufficient to generate a profit. The safety margin is the difference between budgeted SDU volume and break-even point volume and represents a buffer against a fall in SDU volume to a potentially loss-making level of activity.

Note that the 'Program\_Pricing' worksheet includes Corporate, Commercial, and Fundraising activities. The treatment of Corporate, Commercial, and Fundraising matches the internal generation of funds with full and appropriate cost recovery and also provides transparency for funders seeking to ensure that the cross-subsidisation of activities does not occur.

## Accommodation pricing

The 'Accommodation\_Pricing' worksheet collects the cost data entered on the People, Property, Vehicles, Direct\_OH and Indirect\_OH worksheets and calculates Unit Cost and Unit Price of Accommodation services. This sheet should only be completed if your organisation provides accommodation services to clients. In this worksheet, enter information in the **light blue** cells. For each house:

- Step 9.1: Note the calculated cost per SDU.
- Step 9.2: Enter the desired base and risk mark-ups.
- Step 9.3: Note the price per SDU.
- Step 9.4: If you wish to compare the calculated price per SDU to a previous price then enter the previous price and note the change in \$ and % terms. The result may prompt you to revisit the data you have entered for the house. The same option is available in aggregate for all houses in columns to the right of the main table.
- Step 9.5: Review the profit and loss projection. This enables you to assess, at a glance, the profitability of the house after a price has been determined and all costs have been allocated.
- Step 9.6: Review the break-even analysis. The break-even point is where SDU volumes are sufficient to recover all costs but insufficient to generate a profit. The safety margin is the difference between budgeted SDU volume and break-even point volume and represents a buffer against a fall in SDU volume to a potentially loss-making level of activity.

If your organisation does not provide Accommodation Services, this worksheet can be ignored.

## Health Professionals pricing

The 'Health\_Professionals\_Pricing' worksheet gathers costs of allied health professionals such as Occupational Therapists, Podiatrists and Physiotherapists where those professionals deliver specifically funded or fee-for-service supports and services. It collects the cost data entered on the People, Property, Vehicles, Direct\_OH and Indirect\_OH worksheets and calculates Unit Cost and Unit Price of Accommodation services. In this worksheet, enter information in the **light blue** cells. For each Health Professional classification:

- Step 10.1: Note the calculated cost per SDU.
- Step 10.2: Enter the desired base and risk mark-ups.
- Step 10.3: Note the price per SDU.
- Step 10.4: If you wish to compare the calculated price per SDU to a previous price then enter the previous price and note the change in \$ and % terms. The result may prompt you to revisit the data you have entered for the Health Professional. The same option is available in aggregate for all Health Professionals in columns to the right of the main table.
- Step 10.5: Review the profit and loss projection. This enables you to assess, at a glance, the profitability of the Health Professional after a price has been determined and all costs have been allocated.
- Step 10.6: Review the break-even analysis. The break-even point is where SDU volumes are sufficient to recover all costs but insufficient to generate a profit. The safety margin is the difference between budgeted SDU volume and break-even point volume and represents a buffer against a fall in SDU volume to a potentially loss-making level of activity.

If your organisation does not provide allied health services, this worksheet can be ignored.

## Client pricing calculator

The 'Client\_Pricing\_Calculator' worksheet enables individualised client quotes from a menu of available services. In this worksheet, enter information in the **light blue** cells.

- Step 11.1: Enter the number of weekly Service Delivery Units required by the client in the 'SDUs per week' column.
- Step 11.2: Filter the worksheet for non-zero values and review the results.

## Cost summary

The 'Cost\_Summary' worksheet is for Administrator use only and provides an overview of the total of costs loaded into the Provider Model. Any errors highlighted in this worksheet will indicate an allocation error in one or more of the preceding worksheets which must be found and rectified to restore integrity to the results.

## Funding sources

The 'Funding\_Sources' worksheet gathers all sources of funding for the organisation. In this worksheet, enter information in the light blue cells and select from the drop down menus in the blue cells.

Step 12.1: Enter the details of the funding received by the organisation. For each funding source:

- Enter a description (e.g., grant name)
- Select the type from the drop down menu (i.e., Government, Philanthropy, Donations and Fundraising, or Other)
- Specify the total funding amount and the funding start and end date. Note that these columns are descriptive and are not used in any calculations.
- Specify the amount of funding allocated to this year. Ensure that you have accounted for cases where multi-year contracts may have different payment amounts, depending on the year.

Note that client fee for service funding should not be specified in this worksheet as this is calculated elsewhere.

Step 12.2: Using subjective judgement assign funding to programs by entering percentages in the 'Allocation to programs %' columns. Any funding not allocated to a program default to Indirect OH. Any over-allocation (i.e., allocation greater than 100%) will trigger an **error** indicator.

Step 12.3: If applicable, assign funding allocated to 'Accom' to individual houses by entering percentages in the 'Allocation of 'Accom' portion to houses % (if applicable)' columns. Any funding not allocated to a house default to the first house on the list in the 'Key\_Data' worksheet. Any over-allocation (i.e., allocation greater than the total value allocated to Accom) will trigger an **error** indicator.

If your organisation does not provide Accommodation Services, skip these columns and go to Step 12.4.

Step 12.4: If applicable, assign funding allocated to 'Health' to individual health professionals by entering percentages in the 'Allocation of 'Health' portion to health professionals % (if applicable)' columns. Any funding not allocated to a health professional default to the first health professional on the summary table in the 'People' worksheet. Any over-allocation (i.e., allocation greater than the total value allocated to Health) will trigger an **error** indicator.

If your organisation does not provide allied health services, skip these columns and go to the 'Funding\_Summary' worksheet.

## Funding summary

The 'Funding\_Summary' worksheet provides an overview of the funding sources allocated to each program, the estimated costs, and whether the target price has been achieved. It collects the funding information entered into the 'Funding\_Sources' worksheet, and the costing and pricing information from the 'Program\_Pricing', 'Accommodation\_Pricing', and 'Health Professionals\_Pricing' worksheets. In this worksheet, enter information in the **light blue** cells.

**Step 13.1:** If any programs have a client fee for service, enter the fee per SDU. This may be the price set in the 'Program\_Pricing' worksheet (i.e., the target price) or it may be a different price (e.g., if the program receives additional funding). This is only required for programs where "Yes" was selected in the fee for service drop down menu in the 'Key\_Data' worksheet.

Total fee for service funding will be calculated based on the volume of SDUs for the program. If "No" was selected in the fee for service drop down menu in the 'Key\_Data' worksheet, these cells will say "No Fee".

**Step 13.2:** If any accommodation services have a client fee for service, enter the fee per SDU (i.e., Bed day). This may be the price set in the 'Accommodation\_Pricing' worksheet (i.e., the target price) or it may be a different price (e.g., if the house receives additional funding). This is only required for accommodation services where "Yes" was selected in the drop down menu in the 'Key\_Data' worksheet.

Total fee for service funding will be calculated based on the volume of SDUs (i.e., Bed days) for each house. If "No" was selected in the fee for service drop down menu in the 'Key\_Data' worksheet, these cells will say "No Fee".

If your organisation does not provide Accommodation Services, skip these columns and go to Step 13.3.

**Step 13.3:** If any allied health professional services have a client fee for service, enter the fee per SDU (i.e., Consult). This may be the price set in the 'Health\_Professionals\_Pricing' worksheet (i.e., the target price) or it may be a different price (e.g., if the program receives additional funding). This is only required for programs where "Yes" was selected in the fee for service drop down menu in the 'People' worksheet.

Total fee for service funding will be calculated based on the volume of SDUs for the program. If "No" was selected in the fee for service drop down menu in the 'People' worksheet, these cells will say "No Fee".

If your organisation does not provide allied health services, skip these columns and go to Step 13.4.

**Step 13.4:** Review the 'Funding Sources' for each program and/or service. These cells summarise the amount of funding specifically allocated to each program.

Step 13.5: Review the 'Price Achieved' summary. The target price is the price set in the respective pricing sheet. The price achieved is the amount of funding received for the program. The target price gap is the difference between the target price and the price achieved. Programs with positive price gaps (i.e., the achieved price is less than the target price) may require additional funding or cross subsidisation from other funding sources (e.g., programs with negative price gaps).

If the achieved price is less than the total annual costs, there will be a shortfall, if it exceeds the total costs, you will achieve a mark-up.

The 'Organisation Total' column identifies whether there is sufficient funding overall to cover the costs of all programs and services.

Step 13.6: Note the 'Price Achieved per SDU'.

**END**

## 9. HOW TO COMPLETE THE PROGRAM MODEL

Follow these step by step instructions as a guide to completing the Program Model. Note that the Accommodation\_Pricing and/or Health\_Professionals\_Pricing worksheets will not be applicable to your program if you are not costing an accommodation or health care program.

Additionally, you should be aware that this Handbook is likely to change in the future as further refinement is made to the Models.

### Information

Establish the identity of the workbook. In this worksheet, enter information in the light green cells.

Step 1.1: Enter identifying information:

- Organisation The name of your organisation
- Program The name of the program you are costing.
- Year The year to which the data relates (whether calendar year, July-to-June financial year or other)
- Prepared by The name of the person or team who prepared the data for the Provider Model and populated the Provider Model
- Reviewed by The name of the person who reviewed the populated Provider Model and endorsed it for approval
- Approved by The name of the person who approved the populated Provider Model

### Version Control

Record the workbook version to keep track of drafts. In this worksheet, enter information in the light green cells.

Step 1.2: Enter version information:

- Rev Revision. Use alpha names to indicate drafts (e.g., Rev A, Rev B, Rev C) and numeric names to indicate final versions (e.g., Rev 1)
- Date Created The date the revision was prepared
- Author The name of the person or team who made the revision
- Comments Details about what was changed between versions

## Key data

The Key\_Data worksheet is the primary reference resource in the Models. In this worksheet, enter information in the light green cells and select from the drop down menus in the blue cells.

Step 2.1: Enter whole of payroll information – this information relates to your organisation. As such, if you pay above award rates or provide differing leave arrangements, these elements need to reflect this situation. However, the data here will be used to extrapolate the calculations on the “People” worksheet:

- Standard working hours per week
- Annual leave weeks per year
- Public holiday weeks per year
- Sick leave maximum entitlement weeks per year (Maximum staff can access)
- Annual leave loading rate (%)
- LSL rate (%)
- Agency uplift rate (%)
- Superannuation rate (%)
- Workers compensation rate (%)
- Payroll tax rate (%)

The details entered in here will be called upon by the “People” worksheet and prorated for each staff member by the “People” worksheet based on how much of their work is allocated to the program. As you enter the above information, the empty white cells will populate.. As such, the above information is the base data needed to make the calculations specific to your entity in the “People” worksheet.

LSL default is 1.85% in line with the ACT Government portable long service leave scheme for the community sector levy payable to the ACT Government Long Service Leave Authority.. (Website: [here](#))

Step 2.2: Enter Program information. For the program:

- Short title (maximum 10 character name which will appear in subsequent worksheets)
- Type of Service Delivery Unit (SDU)
- Number of SDUs per year
- Length of Funding (Years) – Select from 1-5 in the drop down options.

Step 2.3: If the program is an accommodation provider, enter housing information. For each house:

- Address or other identifier
- Short name (maximum 10 character name which will appear in subsequent worksheets)
- Number of beds available
- Occupancy rate (%)

If the program you are costing is not an Accommodation Service, leave this section blank and go to Step 2.4.

Step 2.4: If the program provides allied health services such as physiotherapy or OT services, enter Health Professional information (if applicable). For each health professional type:

- Classification (e.g., Physiotherapist)
- Short name (maximum 10 character name which will appear in subsequent worksheets; e.g., “physio”)

Note that this table is for you to specify the different types of health professionals you deploy to provided health services/allied health services to clients as separate products. You do not need a separate line for each staff member. For example, if you have 10 physiotherapists and five psychologists on staff, you only need to enter “Physiotherapist” and “Psychologist” once. Each individual staff member will be identified in the “People” worksheet.

If the program you are costing does not provide allied health services, leave this section blank and go to the ‘People’ worksheet.

Sections 5 to 9 do not require input as they contain the standard information that is used to build the model.

## People

The People worksheet gathers all payroll costs for the program and assumes fortnightly rostering. In this worksheet, enter information in the light blue cells and select from the drop down menus in the blue cells. The worksheet caters to all categories of personnel expected, including:

- Direct service delivery personnel – like Support Workers who deliver direct client services
- Direct and indirect overhead personnel – those who provide executive or middle management and administrative support

Step 3.1: Enter identifying information. For each person:

- Position
- Cost type (direct or indirect)
- Employment type (full-time/part-time, casual or consultant)
- Average number of hours worked per fortnight
- Budgeted pay rate per hour (\$)
- Proportion of annual leave taken (%)

List all employees or positions under 'Position'. If several people work identical shifts for the same pay they may be grouped on one line (with the aggregate number of hours recorded under 'Average number of hours worked per fortnight') however this will lock you into applying one set of backfill rules (see step 3.4) for everyone in the group.

Ensure that all likely new positions have been included having regard for new programs or changes in client mix and intensity of support.

For employment types casual and consultant the 'Average number of hours worked per fortnight' should be calculated as annual budgeted hours divided by 26 fortnights.

The proportion of annual leave taken (which can be any positive percentage value no greater than 100%) impacts on the calculated provision for annual leave expense. If the full annual leave entitlement is expected to be taken (i.e., 100%) then no provision for annual leave expense will be calculated. If less than the full annual leave entitlement is expected to be taken (i.e., any positive value less than 100%) then a provision for annual leave expense will be calculated.

Step 3.2: For each person, enter the annual amount of allowances the person will be entitled to. To avoid complexity there are no separate calculations in the Models for all the different possibilities (e.g., motor vehicle allowances, travel allowances, sleep over allowances, public holiday penalties) so you will need to prepare your own calculation and enter the result. Refer to your historical financial and payroll records to ascertain an average cost for these allowances.

Consider that you can choose to load regular allowances into the 'budgeted rate per hour' so the calculation is done for you.

Step 3.3 For each person, enter the cost of providing for compulsory redundancy payments in the year. This will depend on the award the employee is covered by and the period of continuous service.

- Step 3.4: Select backfill options information. For each person:
- Will annual leave be backfilled? (1=yes, 0=no)
  - Will sick leave be backfilled? (1=yes, 0=no)

The Program Model assumes that all hours of leave backfilled for a person will trigger the utilisation of agency personnel at a cost of the 'budgeted rate per hour' x (1 + agency\_uplift\_rate). This uplift factor acts as a proxy for the other alternatives to backfilling leave which also come at a higher cost than the standard rate (i.e., overtime, casuals). Note that the agency\_uplift\_rate is pulled from the Key\_Data worksheet populated in Step 2.1.

- Step 3.5: Review the calculated 'Total employment costs' for each person. Do these total costs look reasonable compared to historical costs?
- Step 3.6: If a staff member works across multiple programs at the organisation, using subjective judgement assign cost to the program, by entering the percentage in the 'Allocation to program %' columns. If this program is the only program the staff member is allocated to, enter '100%' in this column.
- Step 3.7: If the program provides accommodation, assign cost allocated to individual houses by entering percentages in the 'Allocation of people to houses % (if applicable)' columns. Percentages should total to the percentage allocated to the program. Any under- or over-allocation (i.e., allocation less than or greater than the percentage allocated to the program) will trigger an **error** indicator.

If the program you are costing is not an Accommodation Service, skip these columns and go to Step 3.8.

- Step 3.8: If the program provides health care, complete the 'Health Professional activity' section for each relevant person by:
- choosing a classification
  - entering the number of service delivery units (SDU's) that person is expected to deliver per hour of work

If the program you are costing does not provide allied health services, skip these columns and go to the 'Property' worksheet.

## Property

The Property worksheet gathers the costs of all owned, mortgaged and rented buildings including those used for accommodation services. In this worksheet, enter information in the **light blue** cells and select from the drop down menus in the **blue** cells.

Step 4.1: List all buildings in the 'Property description' column. Using property addresses is suggested. If applicable also enter an identifier (e.g., a short name) for each property.

The properties used for Accommodation services (entered in the 'Key\_Data' worksheet) automatically populate at the bottom of the list (Ref 11 – 25) so be sure not to double-up.

Step 4.2: If a property is to be purchased for use in the program, select **Yes** in the drop down menu. New purchases will be carried over to the Capital\_Purchases sheet.

Step 4.3: Enter values for the annual cost of rent or notional rent, loan interest and depreciation in the relevant columns; noting that depreciation will only be relevant for properties which are owned.

Step 4.4: Enter all other annual costs for each building in the remaining columns. Add more columns if required. The 'Total annual costs' column will display the sum of all values entered.

Step 4.5: Determine a basis for allocation of building costs to programs and enter a description of the service delivery unit (e.g., floorspace, FTE, revenue, %) in the 'Allocation SDU description' column.

Step 4.6: Enter the base (i.e., total) value being allocated in the 'Allocation base SDU' column.

Step 4.7: Using subjective judgement assign cost to the program by entering values (in SDUs) in the 'Allocation to [program name] SDU' column. If the property is only used for this program, this column should equal the 'Allocation base SDU' column.

Step 4.8: If the program provides accommodation, assign cost allocated to individual houses by dollar values in the 'Allocation of property to houses \$ (if applicable)' columns. Dollar values should total to equal to the amount allocated to the program. Any costs not allocated to a house default to the first house on the list in the 'Key\_Data' worksheet. Any over-allocation (i.e., allocation greater than the total value allocated to the program) will trigger an **error** indicator.

If the program you are costing is not an Accommodation Service, skip these columns and go to the 'Vehicles' worksheet.

## Vehicles

The Transport worksheet gathers the costs of owned, leased and rented motor vehicles used for any purpose. In this worksheet, enter information in the **light blue** cells and select from the drop down menus in the **blue** cells.

- Step 5.1: Enter details of all motor vehicles in the 'Vehicle description' and 'Registration' columns.
- Step 5.2: If a vehicle is to be purchased for use in the program, select **Yes** in the drop down menu. New purchases will be carried over to the Capital\_Purchases sheet.
- Step 5.3: Enter values for the annual cost of rent or notional rent, loan interest and depreciation in the relevant columns; noting that depreciation will only be relevant for vehicles which are owned.
- Step 5.4: Enter all other annual costs for each vehicle in the remaining columns. Add more columns if required. The 'Total annual costs' column will display the sum of all values entered.
- Step 5.5: Using subjective judgement assign cost to the program by entering percentages in the 'Allocation to [program name] %' column. If the vehicle is only used for this program, enter '100%' in this column.
- Step 5.6: If the program provides accommodation, assign cost allocated to individual houses by entering percentages in the 'Allocation of vehicles to houses % (if applicable)' columns. Percentages should total to equal to the percentage allocated to the program. Any costs not allocated to a house default to the first house on the list in the 'Key\_Data' worksheet. Any over-allocation (i.e., allocation greater than the percentage allocated to the program) will trigger an **error** indicator.

If the program you are costing is not an Accommodation Service, skip these columns and go to the 'Direct\_OH' worksheet.

## Direct overheads

The 'Direct\_OH' work worksheet gathers all costs (other than Payroll, Property and Vehicle costs) that are incurred on the program. Examples of costs include insurance, licences, membership fees, acquittals/audits, and cybersecurity but they must be specific to the program otherwise they are indirect overheads. In this worksheet, enter information in the **light blue** cells.

- Step 6.1: Enter the details of all overheads incurred directly to the program. Enter the dollar amount to be allocated to the program.
- Step 6.2: If the program provides accommodation, assign cost allocated to individual houses by entering dollar values in the 'Allocation of Direct OH to houses \$ (if applicable)' columns. Any costs not allocated to a house default to the first house on the list in the 'Key\_Data' worksheet. Any over-allocation (i.e., allocation greater than the total value allocated to program) will trigger an **error** indicator.

If the program you are costing is not an Accommodation Service, skip these columns and go to the 'Capital\_Purchases' worksheet.

## Indirect overheads

Indirect overheads are not included in the Single Product Model as the purpose of this model is to estimate the incremental contribution margin. The Single Program Model is designed to assist with the decision as to whether or not to accept an additional program. As such, when we cost a single product, we are interested in whether contracting to deliver this contract will deliver a contribution margin that covers new costs incurred as a result of the new program and contributes to covering overheads already incurred. We do not have to cost the existing overheads as they are costed as we are only interested in the contribution made by the new program.

## Capital Purchases

The 'Capital\_Purchases' worksheet collects the properties (as indicated in the 'Property' worksheet), vehicles (as indicated in the 'Vehicles' worksheet), and other capital that purchased for the program. In this worksheet, enter information in the **light blue** cells.

Step 7.1: List all other capital purchases in the 'Capital purchase description' column (Ref 81-100).

The properties indicated as new purchases for the program in the 'Property' worksheet will automatically populate at the top of the list (Ref 1-30) and the vehicles indicated as new purchases for the program in the 'Vehicles' worksheet will automatically populate below this (Ref 31 -80).

Step 7.2: Enter values for the purchase amount and the amount allocated to the program. If the purchase is only used for this program, the 'Allocation to program \$' should equal the 'Purchase Amount \$' column.

Step 7.3: If the program provides accommodation, assign capital cost allocated to individual houses by dollar values in the 'Allocation of property to houses \$ (if applicable)' columns. Dollar values should total to equal the amount allocated to the program. Any costs not allocated to a house default to the first house on the list in the 'Key\_Data' worksheet. Any over-allocation (i.e., allocation greater than the total value allocated to the program) will trigger an **error** indicator.

If the program you are costing is not an Accommodation Service, skip these columns and go to the 'Program\_Pricing' worksheet.

If the program you are costing does not require any capital purchases, this worksheet can be ignored.

## Program pricing

The 'Program\_Pricing' worksheet collects the cost data entered on the People, Property, Vehicles, Direct\_OH , and Capital\_Purchases worksheets and calculates Unit Cost and Unit Price of the program. In this worksheet, enter information in the **light blue** cells.

- Step 8.1: Note the calculated cost per SDU. Note that this cost does not include capital costs as these are accounted for in depreciation expenses. Capital costs per SDU are presented separately.
- Step 8.2: Enter the desired base and risk mark-ups.
- Step 8.3: Note the price per SDU.
- Step 8.4: If you wish to compare the calculated price per SDU to a previous price then enter the previous price and note the change in \$ and % terms. The result may prompt you to revisit the data you have entered for the program.
- Step 8.5: Review the profit and loss projection. This enables you to assess, at a glance, the profitability of the program after a price has been determined and all costs have been allocated.
- Step 8.6: Review the break-even analysis. The break-even point is where SDU volumes are sufficient to recover all costs but insufficient to generate a profit. The safety margin is the difference between budgeted SDU volume and break-even point volume and represents a buffer against a fall in SDU volume to a potentially loss-making level of activity.
- Step 8.7: If you wish to estimate individualised client quotes for the program. Enter the number of weekly Service Delivery Units required by the client in the 'SDUs per week' cell.

## Accommodation pricing

The 'Accommodation\_Pricing' worksheet collects the cost data entered on the People, Property, Vehicles, Direct\_OH and Capital\_Purchases worksheets and calculates Unit Cost and Unit Price of Accommodation services. Note that all program costs entered into the Program Model are assumed to be accommodation program costs. In this worksheet, enter information in the **light blue** cells. For each house:

- Step 9.1: Note the calculated cost per SDU. Note that this cost does not include capital costs as these are accounted for in depreciation expenses. Capital costs per SDU are presented separately.
- Step 9.2: Enter the desired base and risk mark-ups.
- Step 9.3: Note the price per SDU.
- Step 9.4: If you wish to compare the calculated price per SDU to a previous price then enter the previous price (i.e., 'prior actual') and note the change in \$ and % terms. The result may prompt you to revisit the data you have entered for the house. The same option is available in aggregate for all houses in columns to the right of the main table.
- Step 9.5: Review the profit and loss projection. This enables you to assess, at a glance, the profitability of the house after a price has been determined and all costs have been allocated.
- Step 9.6: Review the break-even analysis. The break-even point is where SDU volumes are sufficient to recover all costs but insufficient to generate a profit. The safety margin is the difference between budgeted SDU volume and break-even point volume and represents a buffer against a fall in SDU volume to a potentially loss-making level of activity.
- Step 9.7: If you wish to estimate individualised client quotes for the program. Enter the number of weekly Service Delivery Units required by the client in the 'SDUs per week' cell.

If the program you are costing is not an Accommodation Service, this worksheet can be ignored.

## Health Professionals pricing

The 'Health\_Professionals\_Pricing' worksheet gathers costs of allied health professionals such as Occupational Therapists, Podiatrists and Physiotherapists where those professionals deliver specifically funded or fee-for-service supports and services. It collects the cost data entered on the People, Property, Vehicles, Direct\_OH and Capital\_Purchases worksheets and calculates Unit Cost and Unit Price of health care services. Note that all program costs entered into the Program Model are assumed to be health program costs. In this worksheet, enter information in the **light blue** cells. For each Health Professional classification:

- Step 10.1: Note the calculated cost per SDU. Note that this cost does not include capital costs as these are accounted for in depreciation expenses. Capital costs per SDU are presented separately.
- Step 10.2: Enter the desired base and risk mark-ups.
- Step 10.3: Note the price per SDU.
- Step 10.4: If you wish to compare the calculated price per SDU to a previous price then enter the previous price and note the change in \$ and % terms. The result may prompt you to revisit the data you have entered for the Health Professional. The same option is available in aggregate for all Health Professionals in columns to the right of the main table.
- Step 10.5: Review the profit and loss projection. This enables you to assess, at a glance, the profitability of the Health Professional after a price has been determined and all costs have been allocated.
- Step 10.6: Review the break-even analysis. The break-even point is where SDU volumes are sufficient to recover all costs but insufficient to generate a profit. The safety margin is the difference between budgeted SDU volume and break-even point volume and represents a buffer against a fall in SDU volume to a potentially loss-making level of activity.
- Step 10.7: If you wish to estimate individualised client quotes for the program. Enter the number of weekly Service Delivery Units required by the client in the 'SDUs per week' cell.

If the program you are costing does not provide allied health services, this worksheet can be ignored.

## Multiyear Pricing

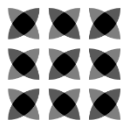
The 'Multiyear\_Pricing' worksheet collects the cost data entered on the People, Property, Vehicles, Direct\_OH, and Capital\_Purchases worksheets and enables cost and price estimates for up to 5 years. In this worksheet, enter information in the light green cells and the light blue cells. These estimates serve to assist organisations in cases where they are required to bid on contracts that cover a period beyond one year. However, as noted in the Framework, if the costing and pricing process needs to cover more than two years, the contract needs to provide for re-costing processes iteratively, funding top up arrangements, contractual resetting in the instance of material changes in the environment (e.g. major employee cost changes, significant regulatory changes) and/or exit strategies as the longer the costing forecast time into the future the greater the risk.

- Step 11.1: Enter a percentage for the estimated annual cost increase this may be provided for in your contract for the service or may be an average of indexation received previously or some other estimate.. The default is 5%. This is an estimate for the amount that all costs are likely to increase each year, to account for changes in the consumer price index (CPI), wage increases, and other price fluctuations.
- Step 11.2: Review the estimated cost per SDU for each year. The total column presents the average cost per SDU across all years based on the total costs.
- Step 11.3: Enter the desired base and risk mark-ups for Year 1. The remaining years will automatically populate based on the values entered for Year 1.
- Step 11.4: Note the price per SDU. The total column presents the average price per SDU across all years based on the total costs.
- Step 11.5: If you wish to compare the calculated price per SDU to a previous price then enter the previous price for the year prior to Year 1 and note the change in \$ and % terms. The remaining years will automatically populate with the price from the previous year. Note that the percentage change in price between Year 1 and Year 2 and so on will be roughly equivalent (due to rounding) to the estimated cost increase.
- Step 11.6: Review the profit and loss projection. This enables you to assess, at a glance, the profitability of the program after a price has been determined and all costs have been allocated.
- Step 11.7: Review the break-even analysis. The break-even point is where SDU volumes are sufficient to recover all indirect costs but insufficient to generate a profit. The safety margin is the difference between budgeted SDU volume and break-even point volume and represents a buffer against a fall in SDU volume to a potentially loss-making level of activity.
- Step 11.8: If you wish to estimate individualised client quotes for the program. Enter the number of weekly Service Delivery Units required by the client in the 'SDUs per week' cell. The total column sums the total cost for the period of the contract.

END



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