



individualised supports:

pricing and costing strategies for disability support providers

Inclusion Melbourne and Saward Dawson have developed the materials in this publication as part of the FaHCSIA-funded Practical Design Fund project. The objectives of the project were to tap into existing sector knowledge and expertise to identify practical solutions and innovative approaches that will assist people with disability, their families and carers, the disability workforce and disability service organisations or segments of this population in managing issues of transition to the DisabilityCare system.

Sixteen organisations participated in a series of workshops hosted by Inclusion Melbourne and Saward Dawson. This publication was developed collaboratively through participation and feedback by these organisations. A survey of the participants found the introductory material and costing tools provided produced a significant increase in confidence and knowledge surrounding costing and pricing.

Participants indicated that the costing tools were accessible and allowed greater transparency for organisations.

Saward Dawson

Saward Dawson is a long established firm with extensive experience in the provision of costing, pricing, enterprise redesign, audit and related assurance services to the disability support sector.

Tim Flowers has been a partner with Saward Dawson for seven years. He has extensive experience with all facets of enterprise management, assurance and governance and is particularly well acquainted with the pressures caused by NDIS (DisabilityCare) transition.

Tim has been involved with the DHS Disability Price Review project as a consultant to National Disability Services as well as acting as lead partner on numerous disability, community health employment

and training engagements. He has served as a committee member on NDS Victoria's Disability Services Transition Plan committee and a key note speaker on NDS Victoria's change challenge series.

"The workshops and costing tools installed confidence and made the process we are currently embarking on a lot less overwhelming."

Participant Organisation

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introduction

DisabilityCare Australia, the National Disability Insurance Scheme, will offer people with a disability increased choice and control, particularly via self-management of their support funding. The scheme will establish a new partnership and transactional relationship between people with a disability and disability support organisations. More than ever before, disability support organisations will need to function as enterprises – businesses – that exist in a free market environment and accordingly will need to offer value for money and have firm boundaries around their core business and strategic planning. This is a significant challenge for the hundreds of small to medium sized charitable organisations that form the current support system.

Many disability support organisations are only now beginning to understand the role of precise and accurate costing and pricing in determining a business' success. While providers are familiar with the gap that exists between planned support hours and the actual delivered support hours, many of these providers do not yet recognise how failing to bridge this gap could eventually affect the fundamental viability of the organisation.

Many providers also feel that they have become *price takers* rather than *price makers* when it comes to the business of providing regular support services. This is a potentially dangerous assumption. Through analysing carefully what they do; where their costs lie; what the market is doing, and the limitations

that their costs impose, organisations can improve the viability of their enterprise, provide better service, and implement bold new strategies and support methodologies.

Highly flexible yet accurate costing techniques will be required if organisations are to thrive in the coming period of significant change, innovation and volatility. We are pleased to include a set of easy to use and tested tools that can be used to improve organisations' costing processes with this publication.

disability support as a marketplace

The table below contrasts the past, present and future environment of disability support in Australia.

	Past	Present	Future	Organisational implications and suggested change focus
Funding mechanism and agency	State Government block funding	State Government individualised funding	Individual via entitlement based federal NDIA funding	Retaining and winning "right" client work and maintaining healthy client relationships
Funding application	Controlled by service providers	Portable, very low volatility	Controlled by individual, higher volatility	Scenario planning
Funding measurement	Support Needs Assessment (SNA) measured by State Government	SNA measured by State Government	Funding measured by clinicians and audited	Effectiveness measures and quality
Service delivery focus	Support hours and safety	Support hours and quality framework	Service effectiveness and actuarial savings	Understand and deliver agreed evidence based supports
Unique value proposition (UVP)	Not important	Important	Crucial	Understand and develop UVP, market and deliver effectively
Cashflow and credit risk	Not important	Important	Crucial	Implement business rules and effective measurement
Understanding individual performance	Not relevant	Important	Crucial	Understand individual performance and accountability measures
Funding specialised capital assets	Hybrid capital funding models	Hybrid capital funding models	Private capital funding	Explore ownership and financing models and return requirements
Importance of strategic planning	Important	More important	Crucial	Shaping the future starts with tone at the top

In the future, disability support organisations will need to better understand the following variables if they are to adapt and remain viable in delivering the supports requested by people:

Support type and boundaries

- Understand the support that people need, want and request
- Understand and interpret how the organisation is positioned to provide various models/ types of support
- Implications and effects of supports defined by timing
- Implications and effects of supports defined by quality and outcome

Cost

- Design supports defined by cost
- Effectively develop organisational unit costing and risk measurement

Price

- Carry out scenario and strategy planning analysis
- Listen carefully to the pricing signals that their key markets are sending
- Design supports that attract sufficient market demand at an acceptable price

- Develop competitive hourly or support package pricing in accordance with business strategy, demand and market forces.

Communication

- Maintain strong stakeholder and client relationships
- Clearly communicate the organisation's Unique Value Proposition (UVP) internally and externally
- Carefully communicate key business strategy to staff at all levels

Delivery and measurement

- Offer the supports to market, then:
- Assess viability and client effectiveness measures on a risk adjusted basis
- Refine offerings

Innovation

- Utilise collegiate relationships to engage in benchmarking and investigate economies of scale

- Gather business intelligence
- Organisations that fail to be competitive in a market driven environment risk their ongoing viability. The following are some key risks for consideration:

Clients

- Failing to engage and retain existing clients
- Under-supporting or over-supporting existing clients
- Failing to win new clients

Financial viability

- Failing to act with financial discipline
- Eroding the organisation's financial position

Quality

- Failing to adequately assess viability
- Failing to safeguard clinical performance

costing

The tools included in this publication aim to reflect a real world understanding of costing, from the extra fifteen minutes spent on the phone with a particular parent/carer to the regular hourly costs involved in supporting a long term client.

The size of an organisation may not necessarily dictate the level of sophistication required when costing. Organisations with many program streams offering multiple service types to people may need a higher level of complexity when compared with organisations with a small number of individualised support packages, however regardless of complexity, there are a number of factors that contribute to accurate costing. These include:

Understanding organisational expenses

- Direct labour costs comprise as much as 70-85% of total organisational costs. Effort

should be taken to ensure the correct attribution of labour costs

- Direct program costs comprise 7-15% of total costs
- Overheads and indirect costs comprise 8-15% of total costs and are usually assessed using rules of thumb. These costs include Corporate Services, IT, Human Resources, Quality, Marketing and Communication, Insurance, Occupancy and Depreciation. *For further information regarding administrative expenses in the not for profit sector, refer to the Nous Report listed in the further reading section*

Labour costs and the impact of the following

- The national employment standards
- The relevant modern awards
- The Equal Remuneration Order (ERO) on future costs

- The definitional impact of the Fair Work Australia review of “personal care”

Measurement

- Measurement should be consistent and comparable within and outside the organisation. *The costing system should provide information that can be compared to past performance, relevant peers or against the industry as a whole.*

Communication and dissemination

- Completed costing exercises should be communicated to all levels of the organisation and use language that encourages staff to become involved and be accountable for their actions. *Communicating with direct support staff in dollar terms may not be as productive as reporting on hours delivered or individual goal attainment. Many support staff will have innovative perspectives but may not share management’s vocabulary and*

are excluded from contributing to innovation and organisational success.

time definition for costing

It is important for managers to have reliable and timely data in order to make consistent and sustainable decisions that will provide equitable solutions to the needs of clients. As a result, costs are best assessed:

- At a point in time
- With fixed assumptions
- In insightful ways

Many organisations develop an average unit cost for the organisation, along with a series of scenarios for regularly encountered variations, such as clients with multiple volunteers or clients who require more coordination time.

Ultimately, an organisation should be able to develop a 24-hour a day, 7-day a week risk-adjusted costed roster that takes into account all costs of support.



costing support provision

Good practice costing for support usually involves the following steps:

planning

1. Clearly articulate goals and lifestyle designs for the person being supported
2. Develop a costed support plan that:
 - a. Defines staff role types and awards
 - b. Defines pay levels inclusive of modern award, ERO and on-costs
 - c. Defines shift types and allowances
 - d. Defines support required on public holidays
 - e. Defines client support ratios
 - f. Defines expected leave backfill requirements (eg: specialised training)

- g. Defines expected external labour hire costs
- h. Adds resources and other direct and indirect costs by rules of thumb. These rules of thumb can be developed by an organisation during the costing process and used generically. Developing rules of thumb can save valuable time during individual costing

delivery

3. Deliver the supports defined by the above process

evaluation and redesign

4. Assess support:
 - a. Have goals been attained?
 - b. Intensity reassessment
 - c. Risk adjustment
5. Repeat process of support plan definition

variables

It is recommended that organisations develop their costing using modelling based on future expectations and assumptions rather than historical performance. It will be necessary to re-evaluate the costing process as historical data will not necessarily fit the new environment. This new environment will involve:

- Increasing individualism
- Labour cost increases driven by modern award rate variations, shift length changes, the ERO and the Fair Work Australia clarification of personal care as predominantly being delivered under SACS based awards
- Claim and workplace definition based increases attributed to workers compensation insurance schemes
- Compliance, supervision, quality management and overhead cost increases
- Package planning, costing and documentation costs increases

business sustainability

The Unique Value Proposition (UVP) of an organisation guides and describes what the organisation is good at, what it does and does not do, when it operates and who it serves. In practice, a UVP provides an understanding of why a user may choose an organisation instead of the available peers. A good understanding of costs and prices will help define what products or services best suit the organisation.

sustainable service delivery

Consider the following framework of support profit outcomes for Jerry. Jerry has a \$25,000 individual support package to provide him with 12 hours per week of support at the current Victorian Department of Human Services unit costs of \$38.82 per hour (see the section *Pricing (p13)* for more about this).

Jerry's package	\$ Income/(loss) per hour of support		
Staff classification	SACS 1.1	SACS 2.1	SACS 3.1
Monday to Friday (daytime shifts)	6.31	4.08	0.89
Monday to Friday afternoon shifts	2.24	(0.27)	(3.86)
Monday to Friday night shifts	1.43	(1.13)	(4.80)
Saturday shifts	(9.95)	(13.29)	(18.08)
Sunday shifts	(26.21)	(30.67)	(37.05)
Public holidays	(42.46)	(48.04)	(56.02)

This framework clearly demonstrates that Jerry's support is not commercially viable outside Monday to Friday. As a service provider, solutions are limited:

- Design Jerry's support package around Monday to Friday excluding public holiday support only
- Provide Jerry with a mixture of support types but fewer than the 12 hours notionally purchased
- Outsource unprofitable support shifts to organisations willing to supply service at \$38.82

See *Pricing (p13)* for more solutions.

Some organisations will need to make difficult decisions concerning operational boundaries if they are to remain viable. Developing sustainable operational boundaries, doing accurate costing, having a solid UVP and conducting scenario planning are key factors in attaining more control over the future direction of an organisation.

risk

Common risks include:

- Costs associated with supporting a person over the long term, including more expensive shift types and an increased number of 1:1 support without adequate review of the support package.
- Failing to accurately track and update values such as indexation and award rates
- Failing to maintain a competitive pricing strategy
- Failing to market the organisation to the right audience. Public marketing campaigns are best rolled out when costing, financial modelling, UVP, pricing, and an analysis of demand and competitors' operations have been completed.
- Failing to design and consistently implement appropriate internal controls and reporting.
- Failing to clarify funding and service agreements with the

person and or the funding body before developing pricing (see more in Pricing below).

In addition to a simple, clear, tested and effective pricing tool, an effective form of risk mitigation is a strong quality management system. Audited policies and procedures provide evidence of compliance to industry standards and operate as internal assurance that time and attention has been given to investigating risk.

auditors

Organisations are required to undergo regular internal and external audits to meet the requirements of the Australian Charities and Not for Profit Commission, as well other public accountabilities including government provider registration. Some organisations also elect to adopt additional quality

management systems (eg: ISO 9001) as part of their quality strategy.

In selecting auditors, organisations should seek companies that have multiple partners, low staff turnover, and have a good record. External financial audits aim to produce key material financial outcomes but may not address issues with policies and procedures; quality and adherence to disability legislation. Internal audits aim to uncover bottlenecks; unmitigated risks; inappropriate internal controls and error checking for compliance with GST, Fringe Benefits and other significant expenses. As a first step, Chief Financial Officers can initiate and undertake peer reviews through swapping limited organisational data with the CFO from another organisation.

pricing

The unit price stipulated by the state or territory department can and has been viewed as the price at which organisations are expected to both cover costs and achieve a margin. Accordingly, most organisations currently price their services using one of three methods:

1. Charge people for support using the government unit price.
2. Use the unit price as base measure and charge people an additional co-contribution to reflect part or all of the actual costs and sustainability margin.
3. Develop a competitive pricing plan for each person that is based on:
 - a consistent and accurate costing system that develops an average cost that can be adapted to formulate an individual cost for additional clients

- the organisational strategic plan, incorporating a margin required to fulfil organisational goals
- scenario planning, including risk
- business intelligence relating to other services in the market
- the provider's Unique Value Proposition

The first two methods assume that the organisation has little capacity to set the price of support. In the DisabilityCare environment however, the third method may become more significant and prevalent. Organisations with accurate costing, firm boundaries and a well communicated UVP will find that they do not necessarily need to adhere to this figure. They can become *price makers*, rather than *price takers*. They can develop competitively priced packages that attract new clients, regardless of whether their hourly price is above or below the current government



unit price figure. Some organisations may price packages using the current unit cost as the maximum hourly price but add a daily fee to their services.

pricing considerations

- More than simply covering costs, pricing is an organisation's method of placing a value on risk and the goals that have been articulated in strategic planning. Pricing also interacts with the market and the organisation's UVP.
- A positive relationship with clients is pivotal in communication and selling supports to people who are interested in purchasing from the organisation.
- Disability support organisations should look to be sustainable in the long term and therefore keep their promises to the people they support over the long term. Additional client fees can be appropriate rather

than adopting an unsustainable approach that requires absorbing extra cost in the short term while jeopardising long term viability. Regular adjustments for inflation or other cost of support changes are also necessary. Organisations should not overestimate people exiting services as a result of price increases, however regular incremental changes are preferable to large ad-hoc increments.

other considerations

- Good pricing will incorporate the marginal elements that come with the risk that has been transferred to the organisation through the price charged.
- Metropolitan and rural markets have differing features. Choice is often diminished and scarcity may exist in rural areas. A rural support organisation's UVP will therefore be different to that of an organisation with similar attributes in a metropolitan setting. For example, a rural

organisation may not be able to set boundaries according to shift types due to a lack of other organisations in the area, however community groups and families may be willing to pay more if the organisation's activities are seen as worthwhile.

- Inappropriate pricing policy can undermine an organisation's UVP. Organisations need to regularly compare their UVPs and pricing with those of other providers in the market to gauge competitive positioning.
- Negotiation with people is a valid component of pricing.

innovation

The following is a list of innovative practices that organisations should seek to implement in order to reduce costs and become more sustainable.

Analysis of ratios

Adjusting staff numbers and ratios (if providing support to a group – eg. in accommodation or respite activity) in penalty rate shifts can lead to savings that become perpetual. That is, they can potentially be measured in millions of dollars over the long term.

Benchmarking

Benchmarking is a vital part of building business intelligence, establishing best practice, and defining business boundaries. Comparative data shared between collegiate disability support providers allows organisations to assess performance relative to others in the sector.

Staff development

Creating opportunities for future management staff to develop and broaden skills will lead to cost savings through mitigated risk and higher productivity.

Fee for Service

Some activities may not seem viable and organisations will sometimes choose to divest unprofitable support types (see Business Sustainability, above). However, there is an upswing in activity which is not fully funded being purchased by clients. This means that, in some situations, the activity may be so important to a person that the person's advocates will choose to pay an extra fee for the underfunded activity.

Understanding support packages

An Individual Support Package (ISP) may not necessarily indicate that a client will acquire 1:1 support

for all of their activities. Scenario planning around support ratios and cluster sizes can be helpful for costing, forecasting and pricing processes. Benchmarking support and coordination ratios with other organisations will prove invaluable in such instances.

Volunteers

Some organisations have a small number of volunteers while organisations like Inclusion Melbourne have as many as five volunteers for every paid staff member. Organisations need to examine the cost of having volunteers versus the cost of not having them. The training, management and innovate mobilisation of volunteers impact heavily on whether volunteers will create unjustified costs or give organisations a vital and sustainable edge.



Data and predictive models

Few organisations have demand registers for their clients. Tracking future needs of clients such as respite requirements is an important aspect of acquiring business intelligence.

Systems refinement

Proper design and consistent application of internal control and risk management frameworks is crucial. Normal commercial disciplines include screening new staff with police, background and exhaustive reference checking.

communication

The language of business viability may not be helpful in explaining service changes to clients and their advocates. The language of long term sustainability is more appropriate and arguably more relevant. Therefore, organisations will need to give thought to developing a professional approach to managing communications, particularly with staff and the people being supported. This will include ensuring that all direct support staff are familiar with the language and concepts being discussed, as these staff will often field the initial enquiries from individuals and their families.

Further, to embed the practices of good financial management, costing considerations need to be understood by many areas of an organisation. Staff who are responsible for backfilling casual support shifts and assembling rosters will require continuous feedback from finance staff to prevent budget blowouts caused by rostering staff on higher pay levels for shifts where they are not required. Additionally, direct support staff need to be familiar with clients' packages and lifestyle goals so that they can avoid practices that are outside the support scope.

costing tools

Attached to this publication are the costing tools that were developed as a part of this project. Further, there are a range of reference documents to aid organisations in their costing processes.

These tools were developed in conjunction with a range of disability support providers and trialed and tested over a series of five workshops held in Melbourne during February and March 2013.

As noted in *Costing (p8)*, measured costs need to be easily compared to past and future data. The attached tools can therefore be approached differently depending on the complexity of costing required, that is, as a set of rules-of-thumb documents; a costing overview for like clusters of clients, or as a detailed whole-of-organisation analysis.

Details about how to use the costing tools are contained on the CD-ROM, along with the following additional files:

- National Disability Services (NDS) Enterprise costing template
- Productivity Commission, Executive Summary: Disability Care and Support Inquiry, July 2011
- Saward Dawson, Intelligent Unit Costing and Pricing Solutions for ISPs, presented February and March 2013.
- Saward Dawson Support Plan costing template
- SCHCDS Industry Award 2010

Further Readings (not included on CD-ROM):

- Fair Work Australia, Equal Remuneration Order, June 2012.
- National Disability Services and Curtin University, NDS Costing and Pricing Tool Manual, April 2012.
- Nous Group, Not-for-Profit Back-of-House Function Benchmarks, November 2011.
- PricewaterhouseCoopers, Price Review Out of Home Disability Services Final Report, March 2009.

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