

Costing of social care services

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As one part of the evaluation of the *Caring for People who Live at Home* Initiative, PSI is undertaking a study of the ways in which providers go about costing new services. We began by calling this ‘the costing project’ but soon realised that this implied too narrow a focus; ‘financial planning and management’ is probably a more accurate title.

Aims of the study

The aims of the study are:

- to help providers and would-be providers identify overt and hidden, direct and indirect costs and wider considerations in financial planning and budgeting;
- to help purchasers understand the real issues in costing different types of service;
- to explore differences in costs within the same service and between different types of service, and the factors creating differences;
- to explore the cost constraints on needs-led provision from the providers’ viewpoint;
- to consider lessons which may be learnt from the commercial sector – especially in relation to costing and management of service provision.

Key questions

The first key question the study seeks to answer is: how different types of service are (i) started and (ii) sustained at rates which are acceptable to purchasers and financially viable for providers? This raises issues concerning the direct and indirect, immediate and longer-term costs of provision; how costs are identified; what help with financial planning is required and how such help is obtained. Second, we are interested in the conditions under which costs can be met. For example, is a private payers’

market necessary? Is the existence of a free or charged in-house home care service a threat to start-up and viability in the independent sector? Are spot contracts inimical to financial viability? Our third area of interest concerns the role of the Initiative. What has been the effect of the Initiative in massaging the market in domiciliary care?

The aims and role of the Initiative have been different in different authorities. Some have emphasised advice; some have emphasised market mapping and research; some have emphasised network building and coordination; some have concentrated on business advice and education; some have emphasised brokerage, helping organisations obtain grants (via STG and other), contracts, support, buildings, and so on. Others have directly provided pump-priming and larger grants for various purposes.

Issues arising from the study

We are still at an early stage in the study but some issues have already emerged. The type of service being provided clearly affects costs, often in quite subtle ways. For example, lunch for minority ethnic groups may vary in price depending on the precise requirements and local availability of ingredients. Competition for staff, local labour and care markets are also important in understanding costs, as is staff recruitment and turnover. The location of a service is crucial in costing. The type of contract (spot, block etc), the unit of service purchased and the timing of the service may make a huge difference to price per hour and to viability. Other important factors include: the predictability of the service demand; client turnover; the known specificity of the terms of the contract/service; the conditions surrounding the contract (eg monitoring, accountability). Financial procedures, especially invoicing and payment periods, may make or break small organisations. Financial viability will also be affected by the indirect service available (eg volunteers, support from the social services department and/or from a parent organisation). The scale of the service is also important but it is complex: there may be economies of scale which reduce marginal costs but there are also diseconomies of scale and immediate costs of growth especially in relation to management costs.