“Value for Money” questionnaire: 
because you’re worth it
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1 Introduction

1.1 In November 2003, the Legal Services Commission (LSC) will be sending a “value for money” questionnaire to all contracted NfP agencies. The questionnaire will ask for financial and other information about the way that advice agencies manage their LSC contracts. The LSC intends to use this information to assess the true cost of running a contract to provide Legal Help.

1.2 A similar exercise is already under way with private practice contract holders. It is sensible to assume that the results of these exercises may be used to justify reducing or increasing the amount paid to both private practice solicitors and NfP agencies.

1.3 This briefing draws on information collected by ASA during a small research project, involving 10 NfP agencies, on the cost of advice work. We are very grateful for the co-operation and support of those agencies involved.

1.4 At the date of writing, ASA has not seen the final version of the LSC questionnaire, although we have seen drafts. Therefore, this briefing is not a guide to completing the questionnaire. In any event, we have been urging the LSC to provide clear guidance.

1.5 We anticipate that agencies will be divided between those who want to prove that they are cheap, and those who want to prove that they are underpaid by the LSC. ASA believes that it is VERY IMPORTANT that the information given by agencies is as accurate and complete as is possible in the circumstances. In particular, we urge you to make it very clear when you are providing estimates.

1.6 This briefing aims to give an introduction to costing advice services. We strongly recommend that the person responsible for completing the LSC questionnaire should first read this briefing carefully.

1.7 Agencies who need support in completing the questionnaire can contact their networks. AdviceUK members should contact John Mulligan or Ruth Power on 020 7407 6622. Law Centres should contact Noeleen Adams on 020 7255 9593. CABx should contact either Vicky Ling on 020 7833 7134 or Clare Shirtcliff on 01873 810101. Shelter agencies should contact Tricia Euston on 07812 024 620.

1.8 Some networks may have already written to their members about this questionnaire. In this case, this briefing should be read in conjunction with your network’s correspondence.

1.9 We suggest that you read this briefing once through to the end - you may find your questions answered in the section headed “complicating factors”.

1.10 This briefing will be set out under the following headings:
  - some background – from grants to contracts
  - some important terminology
  - costing an LSC caseworker – method one
  - costing an LSC caseworker – method two
  - complicating factors
  - further reading
2 Some background – from grants to contracts

2.1 Over the past 15 years or so, there have been significant changes in the funding of voluntary sector organisations.

2.2 Traditionally, voluntary sector agencies received “core grant funding” (often from their local authority) and “project funding” (from other sources). Indeed, during negotiations between ASA and the LSC in 1994, the LSC assumed that “core costs” would continue to be covered by “grants” from local authorities, and that they would pay only for the additional expenditure involved in employing a contract worker.

2.3 Things are changing. Increasingly, the government is asking voluntary sector organisations to deliver public services within a competitive environment. At the same time, many local authorities have converted their core grant funding into contracts for specific services or grants for designated items of expenditure only.

2.4 The shift from grant to contract funding affected many voluntary organisations in the community care sector in the early 1990s. Many of them found that they didn’t have enough money to cover the core or overhead costs of supporting their activities and some estimated that they were using their charitable income to “subsidise” government contracts by between 10-20%.

2.5 This finding led to a campaign by the voluntary sector which argued that government should pay the full cost of providing a service (“full cost recovery”), and that this should include the relevant proportion of core or overhead costs.

2.6 In March 2001, the Charity Commission advised that “Trustees cannot normally use a charity’s funds to pay for services that a public body is legally required to provide at the public expense.”

2.7 In September 2002, the Treasury recommended that “Funders should recognise that it is legitimate for providers to include the relevant elements of overheads in their cost estimates before providing a given service under service agreement or contract.” This means that funding from all government departments should now be on the basis of full cost recovery. It is therefore important that, in the context of the LSC review, advice agencies are able to assess the full cost of delivering an LSC contract.

3 Some important terminology

3.1 People use different terminology when talking about costing. However, once you have understood the basic concepts, it is usually possible to work out what is meant by the various terms.

Cost -v- price

3.2 The aim of costing is to work out how much it costs an organisation to provide a service or deliver a particular output.

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1 Charity Commission (2001), CC 27, Charities and Contracts
2 The Treasury (2002), The Role of the Voluntary and Community Sector in Service Delivery – A Cross Cutting Review
3.3 **Pricing** is about assessing how much you can charge for a service or output. If the price charged for delivering a particular service is too low, an organisation will need to subsidise it from other resources, or go bust. If the price asked is too high – the purchaser may choose to go to a cheaper supplier elsewhere.

### Service delivery, cost centres & support work

3.4 **Service delivery** can be defined as activity that is intended to benefit individuals and groups outside of the organisation. A typical advice agency might deliver:

- LSC funded specialist advice and casework
- non-LSC funded specialist advice and casework
- generalist advice
- reception or triage work i.e. diagnosis, information, initial advice and referral
- representation for individuals at tribunals and courts (whether or not funded through legal representation certificates)
- community outreach advice work
- duty schemes at courts and tribunals
- training - providing training to people outside the organisation
- policy work i.e. for the benefit of a client group - attempting to influence policy makers and the administrators of social welfare
- community education work

In addition, some organisations provide services which are linked to advice such as counselling, interpreting and community development work.

3.5 Each **service** delivered by an advice agency can be called a **cost centre** because each is a discrete or distinct activity that can be costed. It should be possible to cost any of the activities set out in paragraph 3.4.

3.6 **Support work** can be defined as activity that does not directly benefit individuals or organisations which are external to the organisation. However, without these activities, the service delivery wouldn’t happen. So, support work might include time spent on:

- attending staff meetings
- administration
- financial management
- attending training courses
- providing internal training
- fundraising
- strategic planning
- personnel management, including recruitment
- supporting the governance (ie management committee) of the organisation
- promoting or marketing the work of the organisation
- maintaining the computer network
- meeting statutory requirements such as completing returns to Companies House and the Charity Commission.
3.7 It isn’t always easy to distinguish between service delivery and support work. Some activities have more than one purpose, for example:

- advice agency reception workers often provide direct services to members of the public as well as supporting the work of the caseworkers. Whilst in private practice the work of the reception worker would be seen as an overhead (and not chargeable), in the NfP sector aspects of the work should be seen as service delivery and are sometimes explicitly funded as such.
- attending CLSP meetings can be seen as either policy work contributing to the better targeting of legal aid resources or as promoting or marketing the work of the agency or indeed as contributing to agency fundraising.

Any attempt to assess the cost of service delivery in an advice agency will involve having to make sensible decisions about whether a particular activity can be treated as service delivery or support work.

**Direct –v- overhead costs**

3.8 Costs can be divided into direct and overhead costs.

3.9 Direct costs are those directly related to the provision of a particular cost centre or service. Direct costs can be staff or non-staff costs. So, the direct costs of running an LSC contract might include the salary and on-costs of a caseworker and part-time admin worker (who supports the LSC caseworker) and library expenditure which is incurred only by the LSC caseworker.

3.10 Overhead costs are costs which are shared by several activities or cost centres i.e. costs which cannot be directly identified with particular activities or services within an organisation. This might, for example, include rent or personnel management costs. Again, overhead costs can be staff or non-staff costs. In different organisations, the same item of expenditure may be treated as a direct or indirect cost.

3.11 It is often relatively easy to establish the direct costs of a service or cost centre. However, it is also important to identify all of the overhead costs, so that these can be properly apportioned between all of the different services or cost centres that they relate to.

3.12 It is important to remember that support work, for example admin work, can be both a direct and overhead cost. An admin worker who supports only the LSC-funded caseworker will be a direct cost to the LSC contract. On the other hand, an admin worker who spends time supporting both LSC-funded and other work should be treated as an overhead cost.

3.13 In a typical advice agency providing both generalist advice and specialist advice under a LSC contract, it is likely that staff costs such as finance, management, personnel and governance, which support the work of both specialist and generalist advisors, will be categorised as overhead costs. Further, costs such as rent and fuel are likely to be overhead costs – as they are costs incurred on behalf of both the generalist advice and specialist advice services.

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3 In their publication, Funding our future II: Understand and allocate costs, The Association of Chief Executives of Voluntary Organisations divide costs into “direct output costs”; “direct support work”, “indirect support work” and “governance and strategic development work”. This briefing uses the term “direct costs” to include “direct output costs” and “direct support work” costs. “Overheads” refers to “indirect support work” and “governance and strategic development work”.

4 “Value for Money” questionnaire: because you’re worth it
Marginal -v- average cost

3.14 It is particularly important to understand the difference between:

- **marginal costs** – the **additional** cost of adding a particular activity or service to an organisation
- **average costs** – the **average** cost of front-line activity or service-delivery, taking into account the overhead costs of supporting that activity

3.15 The marginal cost of employing an additional LSC contract worker will include the:

- the salary and on-costs of the **additional** adviser
- the salary and on-costs of any **additional** admin workers or other support workers employed to work directly on that contract
- any **additional** running costs e.g. phone, light, computer, rental costs

3.16 However, the average cost of a new LSC contract worker would also include their share of the support work or overhead costs including management, finance, personnel and governance costs.

3.17 In most cases, the average cost will be higher than the marginal cost. However, if taking on a new service involves a substantial investment, for example in new premises, the marginal cost could be higher than the average cost.

3.18 In its recent publication, the Association of Chief Executives of Voluntary Organisations (ACEVO) recommends using average cost as it “provides a more complete picture of all costs involved in delivering the total outputs of the organisation”. 4

4 Costing an LSC caseworker – method one

4.1 This section will give a step-by-step guide to estimating the cost of running an LSC contract in an advice agency where the roles of staff are clear and distinct. It is easier to explain by example – Citywide Advice Centre.

4.2 You should read this section even if staff roles in your agency are not clear and distinct. It should give you an idea of the principles involved.

Citywide Advice Centre - background

4.3 Citywide Advice employs a total of 14.7 FTE (full time equivalent) staff to provide services across several London Boroughs. Staff members are paid on NJC scale points with a 5% contribution to their pension.

4.4 Citywide Advice provides the following services:

- LSC-funded specialist advice, provided under a contract for 3,300 hours. 4.5 FTE staff are **directly** employed to meet the contract – 3 caseworkers and 1.5 administrators
- Generalist advice. 4.7 FTE staff are **directly** employed to provide this service.
- Outreach services. 3.2 FTE staff are **directly** employed to provide this service.

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4 *Association of Chief Executives of Voluntary Organisations (2002), Funding our future II: Understand and allocate costs* (page 19).
4.5 Each of these services can be called “cost centres” because they are the discrete or distinct activities that we are trying to cost.

4.6 In addition, Citywide Advice employs staff who provide support for all of the above services:

- Director (PO4)
- Office Manager (PO3)
- Cleaner

The total cost of employing these three staff members (together with pension and employers N.I.) is £75,325 per annum. This is the staff overhead costs.

4.7 Citywide spends a total of £126,809 on non-staff overhead costs such as premises, general running costs, indemnity insurances etc. In addition, Citywide spends £2,000 on a separate library for the LSC contract caseworkers (this must be treated as a direct cost to the LSC contract).

Apportioning the overhead costs

4.8 In order to cost any one of Citywide’s services, it is necessary to decide how to allocate or apportion the overhead costs - the £75,325 spent on the salaries of overhead support staff, and the £126,809 spent on non-staff overhead costs – a total of £202,134.

4.9 There are a number of ways of allocating overhead costs between different services or cost centres - it is a matter of deciding which approach is sensible in the circumstances. There are circumstances when it would be sensible to allocate overheads according to

- the amount of funding that each service or cost centre receives OR
- the amount of physical space that each service or cost centre takes up.

However, in this example, it is probably sensible to apportion the overhead costs according to the total number of staff directly employed in each cost centre.

Table one – apportioning overhead costs

<table>
<thead>
<tr>
<th></th>
<th>LSC contract</th>
<th>Non-LSC contract advice</th>
<th>Outreach project</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of FTE staff directly employed in each cost centre</td>
<td>4.5</td>
<td>4.7</td>
<td>3.2</td>
<td>12.4</td>
</tr>
<tr>
<td>% of staff in each cost centre</td>
<td>36%</td>
<td>38%</td>
<td>26%</td>
<td>100%</td>
</tr>
<tr>
<td>Allocation of overhead staff costs</td>
<td>27,117</td>
<td>28,623</td>
<td>19,584</td>
<td>75,325</td>
</tr>
<tr>
<td>Allocation of non-staff overheads</td>
<td>45,651</td>
<td>48,187</td>
<td>32,970</td>
<td>126,809</td>
</tr>
<tr>
<td>Total</td>
<td>72,768</td>
<td>76,810</td>
<td>52,554</td>
<td>202,134</td>
</tr>
</tbody>
</table>
Costing the LSC contract

4.10 Once you have apportioned the overhead costs, it is possible to use a spreadsheet to set out the amount spent on each cost centre. Please note that, as before, the cost of each staff member includes both employers NI and pension contribution.

Table two – costing the LSC contract

<table>
<thead>
<tr>
<th></th>
<th>LSC contract</th>
<th>Non-LSC contract advice</th>
<th>Outreach project</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overheads</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff overheads</td>
<td>27,117</td>
<td>28,623</td>
<td>19,584</td>
<td>75,325</td>
</tr>
<tr>
<td>Non-staff overheads</td>
<td>45,651</td>
<td>48,187</td>
<td>32,970</td>
<td>126,809</td>
</tr>
<tr>
<td><strong>Direct costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LSC Caseworker SO2</td>
<td>30,412</td>
<td></td>
<td></td>
<td>30,412</td>
</tr>
<tr>
<td>LSC Caseworker SO2</td>
<td>30,412</td>
<td></td>
<td></td>
<td>30,412</td>
</tr>
<tr>
<td>LSC Caseworker SO1</td>
<td>29,057</td>
<td></td>
<td></td>
<td>29,057</td>
</tr>
<tr>
<td>Legal Admin (LSC contract only) SO1</td>
<td>14,415</td>
<td></td>
<td></td>
<td>14,415</td>
</tr>
<tr>
<td>Legal Admin (LSC contract only) SO1</td>
<td>28,830</td>
<td></td>
<td></td>
<td>28,830</td>
</tr>
<tr>
<td>LSC contract caseworkers' library</td>
<td>2,000</td>
<td></td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Advice worker SO1</td>
<td>28,830</td>
<td></td>
<td></td>
<td>28,830</td>
</tr>
<tr>
<td>Advice worker SO1</td>
<td>28,830</td>
<td></td>
<td></td>
<td>28,830</td>
</tr>
<tr>
<td>Advice worker SO1</td>
<td>20,340</td>
<td></td>
<td></td>
<td>20,340</td>
</tr>
<tr>
<td>Advice worker SO1</td>
<td>27,242</td>
<td></td>
<td></td>
<td>27,242</td>
</tr>
<tr>
<td>Advice worker Scale 6</td>
<td>26,324</td>
<td></td>
<td></td>
<td>26,324</td>
</tr>
<tr>
<td>Outreach project worker PO1</td>
<td>31,943</td>
<td></td>
<td></td>
<td>31,943</td>
</tr>
<tr>
<td>Outreach project worker SO1</td>
<td>17,434</td>
<td></td>
<td></td>
<td>17,434</td>
</tr>
<tr>
<td>Outreach project worker SO1</td>
<td>16,583</td>
<td></td>
<td></td>
<td>16,583</td>
</tr>
<tr>
<td>Outreach project worker SO1</td>
<td>29,057</td>
<td></td>
<td></td>
<td>29,057</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>207,894</td>
<td>208,376</td>
<td>147,571</td>
<td>563,843</td>
</tr>
</tbody>
</table>

4.11 On the basis of this spreadsheet, it is possible to conclude that Citywide Advice spends a total of £207,894 on 3 LSC caseworker contracts for 3,300 hours of Legal Help work. This means that, in this year, each LSC contract caseworker costs:

\[
\frac{207,894}{3} = £69,298
\]

Or, that each contract hour costs:

\[
\frac{69,298}{1,100} = £63.00
\]

Please note that the figures in the spreadsheet have been rounded up or down by excel.
5 Costing an LSC contract worker – method two

5.1 Method one is based on an assumption that staff in an advice agency have clear and distinct roles. Whilst this is the case in some advice agencies (and most private practice solicitors), ASA’s research found that it was not the case in many advice agencies.

5.2 In fact, ASA’s research found that staff in most advice agencies were very flexible about what they did. This was the case in organisations which appeared at first sight to be very hierarchical and where job titles and descriptions appeared to be very specific.

5.3 Whilst this flexibility would be the envy of many private sector managers, it can make it more difficult to assess how costs are spent.

5.4 In order to deal with these problems, we have developed a method for estimating the costs involved in running an LSC contract. This method is based on assumptions about a typical advice agency. Further, it must be emphasised that this method will not produce accurate results unless agencies have good time recording for all activities.

5.5 Again, it is easier to explain by example.

Anytown Advice Centre - background

5.6 Anytown Advice Centre employs a total of 10 FTE staff members. In common with most advice agencies, some 80% of its resources are spent on staffing and the non-staffing costs are spread fairly evenly between the staff members.

5.7 Each staff member is asked to estimate how, in any one week when they are at work, their time is divided between the following activities:
- advice and casework under an LSC contract i.e. time that is claimable under the contract
- other service delivery – i.e. everything other than LSC contract work listed in paragraph 3.4 above
- support work – i.e. everything listed in paragraph 4.7 above [this will include both direct and overhead support work]

5.8 Agencies are encouraged to ask their staff to time record – so that estimates are as accurate as possible. There is a risk that staff will exaggerate the amount of time they spend on “service delivery” and minimise the time spent on support work.
Where does the time go?

5.9 After doing this exercise, it should be possible for Anytown Advice Centre to create a spreadsheet showing how, in any one week, the time available is spent:

<table>
<thead>
<tr>
<th>Staff member</th>
<th>Hours spent on claimable LSC</th>
<th>Hours spent on other service delivery</th>
<th>Hours spent on support work</th>
<th>Employee Contractual hours (week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>28.0</td>
<td></td>
<td></td>
<td>28.0</td>
</tr>
<tr>
<td>Finance worker</td>
<td>17.5</td>
<td></td>
<td></td>
<td>17.5</td>
</tr>
<tr>
<td>Supervisor (LSC)</td>
<td>8.5</td>
<td>3.5</td>
<td>16.0</td>
<td>28.0</td>
</tr>
<tr>
<td>Adviser A (LSC)</td>
<td>25.0</td>
<td></td>
<td>10.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Adviser B (LSC)</td>
<td>25.0</td>
<td></td>
<td>10.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Adviser C (part-LSC)</td>
<td>16.5</td>
<td>3.5</td>
<td>8.0</td>
<td>28.0</td>
</tr>
<tr>
<td>Training officer</td>
<td>5.5</td>
<td></td>
<td>15.5</td>
<td>21.0</td>
</tr>
<tr>
<td>Project worker</td>
<td>25.0</td>
<td></td>
<td>10.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Outreach support</td>
<td>25.0</td>
<td></td>
<td>10.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Admin A</td>
<td>35.0</td>
<td></td>
<td></td>
<td>35.0</td>
</tr>
<tr>
<td>Admin B (vol)</td>
<td></td>
<td></td>
<td>17.5</td>
<td>17.5</td>
</tr>
<tr>
<td>Reception worker</td>
<td>17.5</td>
<td></td>
<td>17.5</td>
<td>35.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>75.0</strong></td>
<td><strong>80.0</strong></td>
<td><strong>195.0</strong></td>
<td><strong>350.0</strong></td>
</tr>
</tbody>
</table>

5.10 For the purpose of this exercise, we have assumed that staff have worked their contract hours only i.e. that they haven’t worked overtime, nor have they lost time on unproductive activities.

5.11 If an assumption is made that each staff member is at work for 44 weeks in any year, it is possible to calculate that staff at Anytown Advice Agency would spend:

- 44 weeks x 75 hours = 3,300 hours on LSC contract work
- 44 weeks x 80 hours = 3,520 hours on non-LSC contract service delivery
- 44 weeks x 195 hours = 8,580 hours on support work

**Working out how much each hour of service delivery costs**

5.12 The next stage is deceptively simple. It should be possible to divide the total expenditure (figure obtained from annual accounts) by the total number of service delivery hours i.e. 3,300 + 3,520 = 6,820. So, if Anytown Advice Centre spends £318,109 p.a. the annual cost of each hour of service delivery is:

\[
\frac{\text{£318,109}}{6,820 \text{ hours}} = \text{£46.64 per hour of service delivery}
\]

or a total cost of £51,304 per contract caseworker (i.e. 1,100 hours x £46.64).

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6 The LSC contract is based on an assumption that each staff member is at work for 44 weeks a year. This means that staff are NOT at work for 8 weeks, or 40 days, a year. This might be made up as follows: 25 days holiday, 8 days Bank Holiday, 4 days training and 3 days sickness or other leave. Agencies following this model will need to consider whether this is a realistic assumption in their case, and amend the calculations accordingly.

"Value for Money" questionnaire: because you're worth it
Caution

5.13 There are undoubtedly many problems with this method – but it is probably better than nothing. The problems include:

- the model assumes that non-staff and staff overheads are evenly distributed across the cost centres. However it is possible that, for example, administrative resources are used disproportionally on LSC contract work
- it doesn't take account of salary differentials.

There is a risk therefore that it will under or overestimate the cost of running a LSC contract.

6 Complicating factors

6.1 A number of other issues need to be considered when costing the provision of an LSC contract caseworker. Although the models suggested in this briefing are based on taking figures from past financial accounts, it is important to acknowledge that these do not necessarily paint the full picture.

Other funding

6.2 Occasionally agencies receive funding explicitly for an overhead cost e.g. to employ a co-ordinator. Should this funding affect the assessment of the cost of running an LSC contract?

6.3 The answer is no – the cost of a service is the same regardless of where the funding comes from. However, it may be that if another funder has explicitly agreed to contribute to the cost of running an LSC contract, the agency would need to avoid “double-funding” and should charge the LSC a below-cost price.

Volunteers

6.4 Costing the input of volunteers is not straightforward. The Charity Commission recommends that organisations do not rely on volunteer workers to deliver a contract. The LSC has, in various ways, made it difficult for agencies to rely on volunteers to deliver advice under a contract.

6.5 ASA’s research found that some agencies relied on the services of volunteer “experts”. For example, one agency had a volunteer and skilled book-keeper, and another relied on a volunteer computer expert. In this situation, agencies should consider including the cost of replacing these “expert” volunteers should they leave. In order to do this, an amount equivalent to their salary and on-costs should be included as an expenditure (and a corresponding amount should be put into the income column as a donation).

6.6 In relation to volunteer advisors, a costing exercise should take into account both the outputs delivered by these volunteers, and the overhead costs that need to be attributed to the services that they provide. The recruitment, induction and supervision of volunteer advisors may require more resources than similar support for paid specialist advisors. It is important that this is reflected in any costing exercise.
“Subsidies”

6.7 ASA’s research found that some agencies benefited from subsidies or “hidden funding”. This can come from local authorities, for example, in relation to subsidised premises costs. Other agencies receive significant support from their networks in the form of subsidised training, management and library services.

6.8 It is important that these subsidies should not lead to agencies understating the cost of their services. It is recommended practice that agencies should estimate the value of these subsidies and include that amount both as income (donation) and expenditure (on that item).

Risk

6.9 It is important that agencies look at costing their services over the long term. Agencies need to take into account the risks that they may face in delivering a service and therefore the additional costs they may incur in the future.

6.10 For example, several agencies reported problems in meeting contract hours caused by staff sickness, maternity leave and staff turnover. When costing a service into the future, it is legitimate to include an element to cover these risks, possibly linked to an insurance premium or an estimate of the cost of locum staff.

Lack of resources

6.11 This is linked to the issue of risk. ASA’s research found that some agencies appeared to run less efficiently or effectively than they wanted to because they were under-funded. For example, several agencies reported that their premises had health and safety problems, were inaccessible, or that their computer equipment was outdated.

6.12 Similarly, others reported that they could not recruit staff with sufficient experience and skill to work on the contract. This meant that they needed to put in more management and supervision when inducting new members of staff, thus increasing overhead staff costs.

6.13 Again, it is sensible to assess how much additional money is needed to run a service efficiently and effectively and to take this into account when costing a service.

Change

6.14 ASA found that several agencies in the research project had undergone significant change recently. This creates two difficulties.

6.15 Firstly, change makes it difficult to find reliable data on which to base a calculation of costs. For example, both models proposed in this briefing rely on a degree of certainty about how many staff are employed. It can be very difficult for agencies to carry out an assessment of costs in any year when projects ended, started and overlapped. This is made worse by changes in LSC contracts – with contracts being increased or reduced.

6.16 Secondly, change is itself expensive, particularly in management, finance and administration time. It can be very difficult to allocate the cost of change between different areas of service delivery.
7 Further reading

7.1 The following resources may assist agencies in thinking about costing their services, and will supplement this briefing. Please let ASA know if you have found other publications helpful.

7.2 The Community Accountancy Self Help (Cash) has produced a guide to “unit costs and pricing” - see www.cash-online.org.uk. This is aimed at small community groups, and is clear and straightforward.

7.3 A Law Society publication, Profitability and Law Firm Management, written by Andrew Otterburn is (as its title suggests) aimed at private practice solicitors. However, it is well written, clear and short. It contains information about the cost structures of private practice firms. It also has useful information and advice about how to approach costing different departments and should be of interest to NfP agencies planning to remain LSC contract holders.

7.4 Finally, the Association of Chief Executives of Voluntary Organisations (ACEVO) produced a publication called Funding our future II. This provides a template for allocating costs and calculating the true costs of delivering a service. This template appears to have Treasury approval (it is mentioned in their publications). However, the template is complex and probably better suited to larger voluntary organisations or the more ambitious finance worker in an NfP advice agency. On the other hand, Chapters 1 and 2 contain useful summaries of the background to the campaign for, and the principles of, “full cost recovery”.