



home and community care

A JOINT COMMONWEALTH AND STATE/TERRITORY PROGRAM
PROVIDING FUNDING AND ASSISTANCE FOR AUSTRALIANS IN NEED

HACC UNIT COSTS - Frequently Asked Questions - and Answers:

Item	Topic	Question
1	REPORTING	How often do service providers report their unit costs?
		We have many activities in our organisation. What do we report in our unit costing?
2	LEAVE PROVISIONS	Should service providers retain a sick leave provision?
		Does HACC fund annual and long service leave provisions?
3	DEPRECIATION	We have depreciation in our overhead expenses for non HACC assets. What do we do?
		What rate can I use for depreciation?
4	UNIT COSTING, QUALITY AND CHEAPER PROVIDERS	We tend to spend more time with clients due to the quality of our service. How is this recognised in the unit cost model?
		Is the main purpose of the Unit Cost exercise to buy cheapest?
5	TRAVEL COSTS	We pay a higher rate of pay to care workers than the industry norm. We do not pay travel time. Is this recognised?
6	TRANSPORT	We provide transport to clients. How would we show the direct costs of providing this service?
7	CATEGORY 5 AND CATEGORY 6	How do I distinguish between category 5 and category 6 activities?
8	MEALS ON WHEELS (&CBDC MEALS)	How would the direct costs incurred in providing this service be shown?
9	CENTRE BASED DAY CARE	We transport people to the centre and provide a meal while at the centre, how do we show these costs?
		We operate several different centres. Should we prepare a separate unit cost for each?
10	EMPLOYMENT COSTS	What do you mean by employment costs?
		We pay ALTA to employees. Is this an employment cost?

11	MPS PROVIDERS	We are an MPS. Do I have to comply with unit costing?
12	DONATED ASSETS	We have some assets donated and funded by other organisations. How do we fund replacement of these assets?
13	NOTIONAL COSTS	Do we show a notional cost for 'free' accommodation?
		Should I include a notional cost for volunteers?
		How do I determine a notional cost?
14	ASSET RESERVES	Can my surpluses still be taken to the asset replacement reserve?

1. REPORTING:

Q: How often do service providers report their unit costs?

A: Unit cost reporting is part of the bi-annual HACC reporting suite. The unit cost schedules support the HACC Income Statement. The HACC Income Statement is accompanied by the other required reports. RSM Bird Cameron has made a workbook available that is a comprehensive suite of HACC financial reporting documents.

Q: We have many activities in our organisation. What do we report in our unit costing?

A: Report those service types that you report into MDS (Minimum Data Set) as set out in your Service Specification Schedule. This may require that you prepare cost data for different regions. The MDS data identifies the units and is the denominator for the calculation of the unit cost. You then calculate the unit cost for each service type.

2. LEAVE PROVISIONS:

Q: Should service providers retain a sick leave provision?

A: HACC has funded a sick leave provision in the past. HACC no longer requires that service providers maintain a cash backed sick leave provision. Service providers with a cash sick leave provision are permitted to transfer the funds to the asset replacement reserve during the transition to unit costs. Sick leave and staff replacement funding are part of normal business operations and costs.

However, if service providers wish to retain a sick leave provision they can.

HACC will not fund any increase in the provision from 1 July 2007.

Note that unless a specific condition exists in the terms of employment, sick leave does not vest in the employee. It is not payable on termination.

The number of sick days accrued for each employee accumulates each year even though it is not paid on termination.

Annual leave is payable on termination.

LSL may be payable on termination.

Q: Does HACC fund annual and long service leave provisions?

A: HACC will fund annual and long service leave provisions that comply with AASB 119. (Australian Accounting Standard 119 deals with 'Employee Benefits'.) These funds must be separately identified and movements accounted for in the bi-annual Cash Flow Statement.

3. DEPRECIATION:

Q: We have depreciation in our overhead expenses for non HACC assets. What do we do?

A: HACC normally only funds the purchase of assets required for HACC service delivery.

HACC accepts that asset depreciation is part of the overhead cost structure for many organisations and as such is funded in the AFL. The depreciation expense for non-HACC assets should be identified separately.

Depreciation is an intrinsic component of vehicle kilometre rates.

The topic of depreciation is very complex as there are many different potential scenarios. See the depreciation attachment (Attachment 4) in the 'Funded Assets Accrual Financial Reporting Policy' for more complete details.

Q: What rate can I use for depreciation?

A: HACC accepts that service providers are best placed to assess the appropriate depreciation rate for their assets. Service providers should use the rate that is most appropriate to them for the class of asset and its usage.

HACC prefers the application of the straight line method of depreciation so that funding of the depreciation expense is smoother. However, HACC will accept alternative methods of depreciation where they more accurately reflect the pattern of consumption of assets.

4. UNIT COSTING, QUALITY AND CHEAPER PROVIDERS:

Q: We tend to spend more time with clients due to the quality of our service. How is this recognised in the unit cost model?

A: The unit cost model looks at the cost of service delivery. Quality issues are outside the scope of unit costing. However, quality of service is critical and recognised as such by HACC when assessing service providers.

Q: Is the main purpose of the Unit Cost exercise to buy cheapest?

A: No. There are many factors that impact on cost.

HACC is required to report unit cost data to the Commonwealth for selected service types from 2008/09.

HACC wants to know, for each service provider, the direct and overhead costs incurred in delivering each service type. HACC may use the data to assist decision making on where to allocate additional funds. As with all of government, HACC is expected to obtain 'value for money'.

5. TRAVEL COSTS:

Q: We pay a higher rate of pay to care workers than the industry norm. We do not pay travel time, although we do pay a kilometre rate for use of personal vehicles by care workers. This will make our direct labour costs (category 1) appear higher and our travel costs (category 2) lower as we do not pay for travel time. Is this recognised?

A: Yes, all factors and circumstances are recognised if a comparison is made between service providers. HACC recognises that many different cost and reimbursement models are in place. Both category 1 and category 2 costs are part of the direct costs.

6. TRANSPORT (One Way Trips):

Q: We provide transport to clients. How would we show the direct costs of providing this service?

A: Transport is the service type that is potentially the most difficult to categorise.

Driver labour is a direct employee (category 1) cost. Vehicle operating costs such as fuel, repairs, insurance, etc. and kilometre allowances if paid are materials (category 3) costs.

If a third party is used to provide the transport, this is a purchased service (category 4).

A transport service type will not have a travel cost (category 2). There are exceptions e.g. an allowance paid to a volunteer for use of their own vehicle is a travel (category 2) cost.

The unit of measure for transport is “one way trips”.

Note that this response is for the costs associated with delivering ‘one way trips’. It does not relate to the travel costs associated with other service types such as Domestic Assistance.

7. CATEGORY 5 AND CATEGORY 6:

Q: How do I distinguish between category 5 and category 6 activities?

A: Category 5 work is typically time spent supervising or coordinating direct care workers. It is one step removed from providing the service. There may be some contact with clients relating to work scheduling etc. Category 5 is also the time of direct care workers not spent in contact with clients such as their training and admin time.

Category 6 work does not typically involve contact with the clients or care worker supervision. Category 6 is more involved with managing the whole service. Category 6 employees are typically receptionists, bookkeepers, accountants, senior managers etc.

Refer to the ‘Unit Costs - How to Categorise Costs’ manual page 10 for more clarification.

8. MEALS ON WHEELS (and meals provided at Day Centres):

Q: How would the direct costs incurred in providing this service be shown?

A: Meals on wheels are more correctly termed a “delivered meal service”. A *delivered meal service means a service for the provision, wholly or mainly for aged persons or invalid persons or both, of meals that are delivered from the place at which they are prepared to the homes of the persons for whom they*

are intended or to other places at which it is convenient for those persons to consume the meal. (from the Delivered Meals Subsidy Act 1970)

HACC eligible clients are expected to pay the full cost of the meals that are delivered to them. The HACC meals subsidy is to assist with the cost of delivery of the meal and in some rural and remote locations to offset the higher costs of producing the meal.

All HACC service providers delivering meals should know the cost of producing the meal and the cost of delivering the meal so that they are able to identify the amount to charge the client for the meal component.

Providers can show the client income and meal production costs in their model as the client income should recover the cost of providing the meal.

9. CENTRE BASED DAY CARE:

Q: We transport people to the centre and provide a meal while at the centre, how do we show these costs?

A: If HACC funds the transport to and from the day centre, this is a transport service and not part of CBDC. The unit of measure for transport is a "one way trip".

If a meal is provided, this is not funded by HACC. The direct costs incurred in operating the day centre are labour and any materials used for day centre activities.

Transport costs could be incurred e.g. if an excursion formed part of the day centre activities.

A purchased service cost could be incurred e.g. if a third party was engaged to provide some entertainment.

The unit of measure for CBDC is client attendance "hours".

Q: We operate several different centres. Should we prepare a separate unit cost for each?

A: HACC does not require that you prepare a unit cost for each centre unless it is identified separately in the Service Specification Schedule.

However, your business is likely to want to know the cost of running each centre and each service provided within each centre. These costs will be required if you are seeking HACC growth funding.

10. EMPLOYMENT COSTS:

Q: What do you mean by employment costs?

A: These are the direct costs associated with employing a person. It includes SGC, Workers Compensation Insurance, and leave entitlement provisions. It also includes the cost of a perquisite vehicle if applicable as this is equivalent to salary.

They are sometimes called employee burden costs or employee direct overhead costs. They are the employment costs not actually paid to the employee.

Special items applicable to remote areas such as ALTA (annual leave travel assistance) and housing assistance are also employment costs.

Q: We pay ALTA to employees. Is this an employment cost?

A: Yes. ALTA (annual leave travel assistance) is an employee cost usually incurred in remote areas. It is akin to other employment costs such as annual leave or superannuation.

11. MPS PROVIDERS:

Q: We are an MPS. Do I have to comply with unit costing?

Y: All HACC funded providers that enter data into MDS have to calculate the costs of providing the service types entered to MDS.

12. DONATED ASSETS:

Q: We have some assets donated and funded by other organisations. How do we fund replacement of these assets?

A: When donated assets are due for replacement you should seek replacement funds from the original funder. HACC funds should only be sought after alternative funding sources have been exhausted.

13. NOTIONAL COSTS:

Q: Do we show a notional cost for 'free' accommodation?

A: Yes. A notional rental cost and an equivalent notional income amount should be shown.

Building depreciation is not funded by HACC even if shown as a cost in the records of an organisation. Hence, where a donated building is owned by the service provider, a notional depreciation expense should be shown along with notional income equal to the depreciation.

Q: Should I include a notional cost for volunteers?

A: HACC does not require that service providers calculate the notional cost for volunteers. However, service providers may wish to do so, particularly if they wish to see how their cost structure would look if they had to pay for their volunteers.

Q: How do I determine a notional cost?

A: A notional cost is the amount of cost that would be incurred if there was not some sort of subsidy or free supply. Assess the "fair value" of what is being supplied. Fair value is the amount that would be exchanged between willing parties in an arm's length transaction. In most cases a documented reasonable estimate will suffice as it will not materially impact on the total cost. In many instances the notional cost is known such as when LotteryWest funds an asset.

14. ASSET RESERVES:

Q: Can my surpluses still be taken to the asset replacement reserve?

A: HACC now funds depreciation for certain assets. Service providers could previously seek to allocate a proportion of an annual surplus to the asset replacement reserve. HACC funding of depreciation now creates the asset replacement reserve.

Any surplus should be identified, reported to and discussed with your Project Officer.