



Cost Rationale and Framework for Initial Cost Analysis Discussion Guide



As discussed in the sustainability resource guide, cost issues are vital to sustainability planning. Arriving at cost estimates by simply dividing the total budget by the number of persons served will not advance the prospects for sustained funding. *Here's why:* at the most simplified level, the approximate unit cost of serving each child likely to be enrolled in the RPG program over its five years of funding is around \$5,000. The basis for this estimate is the \$140 million total price tag of the program and an initial, very preliminary estimate that around 28,000 children will be served by the time the five-year program is over.¹

That cost number and the process of arriving at it are obviously over-simplified. Administrative costs, evaluation costs, startup costs, and many other costs can and should be separated from the costs of direct services to these children. But unless a more refined process is developed and justified, policy leaders assessing the program will tend to use very simple arithmetic to estimate costs—and those costs will be argued by some to be too high, unless they can be linked with benefits that are in the same range or higher.

At present, there is no uniform method for RPGs to develop such refined costs, nor any requirement from the federal funder to do so. But it seems very likely that the demand for such an effort will grow, given (1) the emphasis on performance in the legislation creating the RPGs, (2) the new emphasis on performance and outcomes in statements by leaders of the new Administration, and (3) the need for concrete cost data as RPGs begin to make their case for sustainability with potential funders.

The third of these is the basis for a cost project for the RPGs, in which an effort is being made to compile information on what the RPGs are doing now to collect cost data, understand what the more advanced sites are doing, and equip all sites with guidelines and models that will help them answer likely questions from potential funders:

- How much does this innovation cost?
- Can it be expanded, and are there economies of scale as it expands?
- What support in assuming costs has been secured from other agencies, and how much does this add to total costs of the project?
- What data is being collected on the eventual benefits or cost offsets of these project costs?

Levels of Cost Analysis

In general, three levels of cost analysis can be defined for the purposes of the RPG initiative:

- A. What is currently being done by most projects: basic compilation of expenses and client numbers;
- B. A higher level of analysis that includes approximate unit costs for clients, reflecting

¹ This is still a very rough estimate and may include some comparison group members, but generally does not. Obviously not all RPGs serve children, and the figures should be further adjusted to reflect that.

distinctions among base costs for a “business as usual” model vs. the enhanced model of RPG services, fixed and variable costs, startup costs, and costs assumed by other agencies’ funding and client entitlements funding outside the project budget;

- C. A higher level that enables cost-benefit or cost-effectiveness analysis, requiring data on longer-term outcomes as well as refined cost data, e.g. the cost of keeping a child at home by treating a parent vs. the cost of foster care.

Our assumption is that moving some projects toward the second level—and recognizing those that are already at or near that level—would enable us to disseminate exemplary cases in a way that would help all sites advance their sustainability agenda.

Elements of Basic Cost Analysis

Before cost effectiveness or cost benefit reviews are possible, basic cost information must be compiled. For many projects, these costs are now available only in the form of project budgets that are funded by the federal grant, with matching funds sometimes added to the total. But more detail is needed in order to assess the true costs of the project at a level of analysis that is more useful than dividing total spending by clients.

Some of the items that follow will not be readily available, but the checklist will serve to identify the areas where information is in hand and other areas where it will need to be extracted with more effort. It is not essential to have all of these to begin the process of doing cost analysis.

1. What are the standard costs of basic services already provided in the agency/ collaborative, i.e. what was happening prior to the innovation?
 - a. The cost of a treatment episode in our agency
 - i. Different modes: residential, intensive outpatient, outpatient, brief intervention, etc.
 - ii. Different length of treatment: cost of standard 30-day, 6-month, etc.
 - b. Child welfare screening and assessment
 - c. Child welfare visitation oversight
 - d. Child welfare contracted parent education
 - e. Court processing
 - f. Child care during and after services
2. What are the full costs of the innovation?
 - a. Project budget plus any funding that matches or leverages that budget
3. What are the unit costs of the innovation?
 - a. Per client completing the program: child/family/mother-child dyad
 - b. Per service element, e.g. group counseling, parent education, developmental assessment—what do the pieces of the program cost?
4. What data is available on variable costs such as staffing vs. fixed costs such as central administration: which costs change with the number of clients and which are basic no matter how many clients are served? Do you know the thresholds for economies of scale that might drive down unit costs, i.e. when does the program become more efficient because it can handle more clients with the same level of service costs?

5. What data is available on short-term startup costs that do not recur, e.g. initial staff training, information technology?
6. What costs are supported by client entitlements that are not part of the project budget but that enrich the client services, e.g. TANF, child care, housing vouchers?
7. What costs are associated with which key outcomes of the project; which 2-3 most important client outcomes can be tracked by the costs of achieving those outcomes?

Issues

1. Defining the case: The definition of a “case” differs widely from site to site and within programs at the same site. A case may be a child, a parent, an entire family, or some combination of child and parent and siblings and other caretakers. A case may enter the system only once, or may be substantiated after investigation, and then referred for services and ongoing monitoring—which is obviously a much higher cost than just responding to a call into a hotline for abuse and neglect.
 - a. But averages can be developed, and then refined based on actual experience with the pilot population. Averages may need to be in terms of a range of costs, such as those SAMHSA has developed for treatment costs, e.g. a residential “cost band.”
2. Deciding what is in the base: In many cases, agencies will not have an immediate answer to the question of what the “business as usual model” actually costs. The best way to begin that discussion may be to simply ask for their total costs—which may also be a bit murky—and then for their total clients. Taking fixed costs such as rent off the table may be advisable; we do not need precision at this stage; we need a defensible estimate, which will in many cases be the first time this has been done.
3. Defining what objectives and outcomes are linked with which budget elements: If, for example, a new substance abuse specialist is being assigned to the court, a question that needs to be answered is whether the intended measures of that staffing are simply faster court processing, better/faster assessment of the severity of SUDs, or increased enrollment in treatment relative to some baseline. Or can we document more parents/caregivers completing treatment, and more children remaining at home or being reunified with their parents/ caregivers.
4. Defining which costs are borne by clients rather than agencies: In some cases, the costs of accessing a project are partly borne by the client, such as transportation or child care costs of using a facility that requires travel and does not provide child care. In rural areas, these may be a significant part of the project, and may have an effect of deterring lowest-income and hardest-to-serve clients from enrolling in services. If these costs are ignored, the unspoken assumption is that all clients have equal access to services—which is clearly not true. In some cases, agencies will assume these costs of access, which should then be reflected in the cost analysis if it has a significant effect on clients.
5. Defining the costs of collaboration: Many useful models have been developed for determining costs of single-agency services such as drug treatment or family counseling. Compiling an initial estimate of the costs of working on an interagency basis, however, is more challenging than cost analysis within an agency, because clients move across the

boundaries of different cost systems and thus those costs need to be aggregated to get the total cost of serving clients in a collaborative project. There are at least two kinds of costs of collaboration: (a) the cost of all the time in meetings and negotiations and monitoring the results of collaboration, and (b) the costs of actually providing the services in a collaborative way with a case conference, multidisciplinary team, or lengthened screening tool that addresses substance use disorders, family violence, and mental health issues.

Resources

- **NIDA Manual for Treatment Costs**
<http://www.nida.nih.gov/IMPCOST/IMPCOSTIndex.html>
- **Do Drug Courts Save Money?**
<http://www.nadcp.org/learn/what-are-drug-courts>
- **Harwood, R. NASADAD. An inventory of cost offset studies for state substance abuse agencies.**
www.nasadad.org
- **Caliber Associates. "RWC/PPW Cross-Site Evaluation Treatment Cost Fact Sheet 7" Center for Substance Abuse Treatment, 2003.**
<http://womenandchildren.treatment.org/media/factsheets/pdf/factsheet07.pdf>
- **Cost Analysis of a Home Visiting Program to Prevent Child Abuse and Neglect**
<http://ideas.repec.org/p/wpa/wuwphe/0506004.html>
- **Economic Evaluation of Home Visiting Program**
[http://www.cffutures.org/files/publications/Economic%20Eval%20of%20Home%20Visiting%20Programs Barnett.pdf](http://www.cffutures.org/files/publications/Economic%20Eval%20of%20Home%20Visiting%20Programs%20Barnett.pdf)