WORKBOOK

The True Cost of Service Workbook

What this is	A five-layer cost build that produces your real cost per unit of service, the gap between that cost and the rate you are paid, and the evidence file to put in front of a contracting officer.
It assumes	You are paid a set rate per unit — per placement day, per hour, per case month — by a government or institutional payer.
Change before use	The unit, the layers that apply to your model, and every figure. The illustrations use invented round numbers.

The problem this fixes

A rate was set. Possibly years ago, possibly by someone who no longer works there, possibly by applying a percentage increase to a rate that was itself inherited. Since then the cost of delivering the unit has moved — wages, insurance, the documentation burden, the training hours a license now requires — and the rate has not moved with it, or has moved by a fixed escalator unconnected to any of it.

Organizations in this position usually know something is wrong and cannot prove it. They say "we lose money on every placement" in a tone that suggests it is a feeling. This workbook converts the feeling into a defensible number, and then into a file that a contracting officer can act on. **The rate conversation is not won by conviction. It is won by arithmetic that survives inspection.**

> **WHAT THIS IS NOT**
>
> This is not legal advice about your contract, your procurement, or your rights under either. Read it alongside your own counsel, particularly before invoking any contractual mechanism.
>
> It is not a negotiation strategy and contains no tactics. It produces a cost figure and the evidence behind it. What you do with that is a decision for your leadership and board.
>
> It asserts nothing about what other providers are paid or what any rate should be. Comparative claims you cannot source will damage your credibility faster than a weak number will.

Step one — define the unit, precisely

Half of all bad cost work fails here. The unit must match the unit you are paid on, exactly, including its edge cases. Write the definition down before costing anything.

Question	Why it decides the answer
What is the billable unit?	Placement day, service hour, case month, episode, slot. Cost per placement day and cost per placed child are different numbers.
Does the unit accrue on days of	If you carry cost on days you cannot bill, those days belong in the

Question	Why it decides the answer
absence, hospitalization, or runaway?	denominator as unbillable capacity.
Is there a minimum or maximum per period?	Caps convert marginal units into unfunded units, which changes the average.
When does the unit start and stop?	Intake work performed before the first billable day is real cost that must land somewhere.
Are there units you deliver but never bill?	Crisis response, court appearances, aftercare contact. These are the costs most often left out entirely.

Step two — the five layers

Build the cost in five layers, in this order. Most organizations build layers one and two, stop, and conclude they are profitable.

Layer	What belongs in it	The common error
1. Direct service labor	Loaded cost of the staff who deliver the unit — see step three	Using the hourly wage rather than the loaded hourly cost
2. Direct non-labor	Participant costs, mileage, materials, placement-specific expenses	Usually done correctly, and it is the smallest layer
3. Supervision and oversight	Supervisor time, case review, clinical consultation, on-call rotation	Treated as overhead when it is a licensing requirement tied to volume
4. Compliance and quality	Documentation, records, licensing preparation, incident reporting, training hours required to hold the credential, quality review	Omitted almost universally. It is a cost of delivering the unit lawfully, not an administrative luxury.
5. Allocated indirect	Finance, HR, IT, executive, occupancy, insurance, audit — on your written allocation basis	Using a rate a funder allows rather than the cost you actually incur. Those are different numbers and both belong in this file.

Layer four is the one that changes the argument. When a license requires an annual number of training hours, a documented supervision ratio, and a record that can be produced on demand, those requirements have a cost per unit. An organization that omits layer four is telling the payer that compliance is free.

Step three — the loading factor

An hour of a staff member's wage is not an hour of their cost, and the gap is larger than most people assume. Build the loaded hourly cost explicitly.

Component	Illustration — invented figures
Base annual salary	52,000
Employer payroll taxes	4,100

Component	Illustration — invented figures
Health and other benefits	9,000
Workers compensation	1,800
Required training and licensure hours	1,600
Total annual cost of employment	**68,500**
Paid hours per year	2,080
Less leave, holidays, sick, training	(280)
Available hours	**1,800**
Loaded cost per available hour	**38.06**

In this illustration the loaded hourly cost is roughly **fifty-two percent above** the base wage rate — and that is before the hour is converted into a billable hour.

The denominator problem

Available hours are not billable hours. Between them sit travel, documentation, supervision received, meetings, court, and the time absorbed when a colleague's post is vacant. Costing on available hours understates the true cost of a billable hour, often severely.

1. Take available hours per staff member from the table above.
2. Subtract observed non-billable time, measured rather than assumed. If you have never measured it, sample two weeks across a representative group before proceeding — a guess here invalidates everything downstream.
3. The result is **productive hours**. Loaded annual cost divided by productive hours is the figure that goes into layer one.
4. Record the utilization percentage. It is the number a payer will question first, and the one you must be able to evidence.

> **DO NOT INFLATE THIS FIGURE**
>
> The temptation is to present the least favorable utilization you can defend. Resist it. A rate case is a credibility exercise, and a single number that does not survive scrutiny discredits the ones that would have. Present measured figures, name the measurement period, and disclose the method.

Step four — the gap

Bring the layers together per unit, and state the gap in three ways. A payer who is unmoved by a per-unit figure is often moved by the annual one.

Line	Per unit — illustration	Basis
Layer 1 — direct service labor	112.40	Productive-hour cost x hours per unit

Line	Per unit — illustration	Basis
Layer 2 — direct non-labor	18.00	Actual, prior twelve months
Layer 3 — supervision and oversight	21.60	Supervisor cost allocated on caseload
Layer 4 — compliance and quality	16.20	Documented hours x loaded cost
Layer 5 — allocated indirect	29.80	Written allocation methodology
True cost per unit	**198.00**	
Rate paid per unit	176.00	Current contract
Gap per unit	**(22.00)**	**11 percent below cost**
Units delivered annually	9,400	Prior year actual
Annual unfunded amount	**(206,800)**	Gap x volume

The final line is the one that travels. A twenty-two dollar gap sounds like a rounding difference. Two hundred thousand dollars a year, cross-referenced to your audited statements, is a finding — and it explains, in a single line, why the organization's reserve has been falling.

Step five — the evidence file

Most organizations arrive at a rate conversation with an assertion. Arrive with a file. Every item below is a document you either already hold or can produce from the Open Shelf.

1. **The unit definition,** written, matching the contract language.
2. **The cost build,** all five layers, with the basis for each stated.
3. **The loading calculation,** with the payroll source identified.
4. **The utilization measurement,** naming the period sampled and the method.
5. **The written cost-allocation methodology** supporting layer five.
6. **Audited financial statements** for the period the figures are drawn from, so every input can be traced.
7. **A reconciliation** showing that the total cost across all units ties to the audited expense total. This single page defeats the most common objection, which is that the model double-counts.
8. **The consequence,** stated without theater: what the organization has done to absorb the gap so far, and what it will have to do if it continues.

The reconciliation in item seven is the difference between a submission that is engaged with and one that is filed. It demonstrates that you have not built a favorable model — you have divided your real, audited costs by your real volume.

What to expect

- **A request for the underlying workpapers.** Have them ready and organized; a delay here reads as a weakness in the numbers.
- **A challenge to layer four.** Be ready to point to the specific regulation, license condition, or contract term that requires the activity you costed.

- **A challenge to your indirect rate.** Distinguish clearly between the rate a funder permits and the cost you incur; both are legitimate figures answering different questions.
- **A longer timeline than the problem allows.** Rate changes commonly move on a budget cycle. Establish the mechanism and the calendar early, and plan the interim rather than waiting.

Limits of this workbook

- **It costs what you do now,** including any inefficiency. If your model is more expensive than it needs to be, this file will show a higher cost and a payer may reasonably say so. Run the cost build and an honest look at your own operating model together.
- **It does not address rate-setting law,** which varies by payer, program, and jurisdiction, and is a matter for your counsel.
- **It is only as strong as the allocation beneath layer five,** which must be written down before this workbook is credible.
- **It says nothing about what any other provider is paid.** Comparative rate arguments require sourced, current, like-for-like data. Without that, leave the comparison out.

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