

## 1. WHAT ARE UNITARY COSTS AND UNIT COST DATABASES?

A unitary cost can be defined as the cost of a social problem, intervention, or service, broken down to the level of a single individual, over a certain period of time. For example, it might reflect the **estimated average cost** per year, at the national level, of a type 2 diabetes patient. These estimates may either encompass only direct government expenditure, or they might include other economic and social costs. Calculations can be based on estimations derived from historical data or follow more complex methodologies.

A **Unit Cost Database (UCD)** gathers a set of estimated unitary costs in areas such as health, education, housing, and social services. Unit Cost Databases are particularly relevant when delivering public services through outcome-based mechanisms<sup>1</sup>, as the estimated costs can be used as references to price outcomes. Unit Cost Databases are therefore strongly linked to social impact investment and social innovation strategies in the public sector. Beyond the pricing element, Unit Cost Databases help to inform governments and foster data-driven decision making. Social Purpose Organisations (SPOs) and social investors benefit from transparent data that guides the development and pricing of future interventions, which helps implement new programmes and carry out rigorous evaluations, monitoring and outcomes measurement.

The first public Unit Cost Database was funded by the UK Government, and delivered by Greater Manchester and Birmingham City Council in 2011. Since then, other governments have looked into sets of unit costs to facilitate outcome pricing and measurement when implementing outcome-based mechanisms.

<sup>1</sup> More information on outcome-based mechanisms at: **Gianoncelli A.**, and **Boiardi P.**, (2017), “*Financing for Social Impact – The Key Role of Tailored Financing and Hybrid Finance*”, EVPA. Available here: <https://evpa.eu.com/knowledge-centre/publications/financing-for-social-impact>

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Unit Cost Databases are an important tool in the effort to promote more outcomes-oriented public policy as well as outcomes-commissioning in social service provision. The aggregation of cost-estimates allows for data-driven decision making both in the political agenda as well as in the actual delivery of interventions.

## 2. OPPORTUNITIES & CHALLENGES

Unit Cost Databases have the potential to improve public programmes by promoting:

- **Transparency and openness:** Unit Cost Databases are built from information collected from government reports, technical studies, and the historical costs of public interventions and programmes. While some of this information is already public, accessibility and readability are often an issue. Unit Cost Databases standardise, simplify and aggregate this data in a public, accessible place. This levels the playing field for all stakeholders trying to address social challenges and lends everyone’s work to further scrutiny.
- **Efficiency and effectiveness of public expenditure:** UCDs reflect how different social problems absorb public resources, helping the government prioritise and keep the focus on outcomes when contracting SPOs or delivering its own interventions. UCDs also highlight the potential savings that could result from preventing certain issues, encouraging the development of preventive interventions and the redesign of existing programmes.
- **Innovation in public sector contracting:** Unit Cost Databases are used by governments to promote social innovation and social investment. When setting up Social Impact Bonds (SIBs) or Outcomes Funds<sup>2</sup>, outcomes pricing is one of the core elements to develop. Unit Cost Databases help establish a data-driven decision-making process, as governments can choose to use the estimated costs of a certain social problem as a cap to what it is willing to pay for its prevention.

<sup>2</sup> More information on Outcomes Funds at: <https://evpa.eu.com/knowledge-centre/publications/outcomes-funds-in-europe>



Unit Cost Databases are not without **limitations and challenges**:

- Estimating unitary costs involves a **high degree of ambiguity** and different methodologies might warrant significantly different numbers.
- Most social problems represent costs for a complex combination of public and private sector providers. It can become arduous to compute the costs in cases of **data gaps, data overlaps and conflicting information**.
- Costs can be particularly difficult to compute when the social problem involves **indirect and long-term costs**.
- Because most social responses involve a fixed cost component, the prevention of a certain outcome and associated cost **might not result in a cashable saving** for the public sector unless it applies to a minimum critical mass. This adds a layer of complexity when reading the data.
- Generally, establishing Unit Cost Databases is a **complex and costly** process, requiring strong collaboration between public sector entities.

### 3. EXAMPLES

The **first Unit Cost Database** was funded by the **UK Government** in 2011, and updated in 2015. It compiles more than 600 cost estimates in different thematic areas: crime, education and skills, employment and economy, fire, health, housing, and social services. The Database has helped the government as well as SPOs to aggregate meaningful data to reveal which interventions work and to incorporate learnings to improve public interventions. Social investors and SPOs have used this database for **outcomes pricing** in the majority of [SIBs in the UK](#).

Another example of UCD is **One Value**, a user-friendly platform that hosts over 70 unit cost indicators for social problems in Portugal. The costs spread across: social protection, employment, health, education, and justice. One Value was initially developed by **MAZE**, a private organisation, on commission by the **Calouste Gulbenkian Foundation**. However, from 2018, One Value has been hosted and managed by [Portugal Social Innovation](#)<sup>3</sup>, a government body responsible for overseeing the disbursement of approximately €150 million to foster social innovation in Portugal. The platform is now being promoted as a reference for SPOs who are looking to apply for these funds through **Co-Granting and Social Impact Bond** instruments. The embedding of One Value into the government legitimizes the cost estimates it contains, represents a **commitment to outcome-focused**

<sup>3</sup> More information on Portugal Social Innovation at: <https://evpa.eu.com/uploads/documents/Portugal-Inovação-Social.pdf>

**public policy**, and ensures that SPOs can find these numbers and use them to shape better, more relevant services.

### 4. UNIT COST DATABASES AND RATE CARDS

**Rate Cards** are “lists” of outcome prices that a commissioner, usually the government, is willing to pay for a certain desired outcome. Rate cards enable commissioners to set outcomes and prices before procurement and allow them to contract multiple providers at the same time, which means that the potential for scale is higher than in a typical outcome-based contract. Because the maximum price that a commissioner is willing to pay for a certain outcome is often based on the public savings that result from it, there is a strong link between unitary costs and rate cards.

Rate Cards are typically developed for a specific issue area and procurement process:

The **UK Department for Work and Pensions**, for example, designed a Rate Card for the **UK Innovation Fund**, a Payment-by-Result pilot that seeks to support disadvantaged young people by re-engaging them with education, training and employment. The government listed the outcomes to be achieved and fixed the maximum price of each outcome and the maximum amount payable per individual. The payment will only occur if the pre-agreed outcomes are achieved.

Following the UK example, the **New South Wales (NSW) Government** is piloting a rate card approach as part of the [Homelessness Social Impact Investment](#). In July 2018, the NSW Government launched a call for innovative proposals to tackle homelessness through **social impact investments**. The Rate Card seeks to facilitate the transaction and measurement process.

To promote **outcomes-based commissioning**, governments might be better off publishing outcomes prices through rate cards than using real cost information, for two reasons: (1) pricing a certain outcome at an estimated cost might not be accurate; and (2) contracting on the basis of rate cards for outcomes allows for more negotiation and steering room for both the government and the service provider.

<sup>4</sup> A Rate Card is “a list of outcomes that the governments seek to achieve and the price that the government is willing to pay for each outcome”. More information at: <https://www.osii.nsw.gov.au/assets/office-of-social-impact-investment/files/Request-for-Proposals-Homelessness-July-2018.pdf>