



A Guideline to Implementing Full Cost Attribution

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Foreword

Good information is essential for good decision-making. As governments of all complexions strive to be more effective and efficient it is critical that they make decisions about resource allocation that are based on the full cost of providing services. At the same time, it is essential that residents, ratepayers and other stakeholders have access to similar information to assess the effectiveness and value of the service delivery provided by Councils.

Knowing the full cost of providing a service is essential information if we are to effectively manage that service.

Local Government has traditionally allocated some of the indirect costs of operation to the actual service or function. Full Cost Attribution extends this concept further by allocating all indirect costs, including administration and management costs, to Council services. This provides the decision makers with better information on the full cost of providing services when determining such matters as; whether to provide the service or not, what price to charge, if the service is not cost neutral then how much the community is subsidising the service and how this cost compares with other Councils.

These guidelines have been prepared to assist Councils to implement Full Cost Attribution in a manner that both meets the legislative requirements prescribed by the *Local Government (Financial Management) Regulations 1999* and to enhance the financial information available for key decision makers. The guidelines are part of a comprehensive package that also includes an extensive training program, a workbook for practitioners and telephone support to Councils as we approach July 1, 2002.

Mayor Brian Hurn
President

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Introduction

Financial information is an important element of both public sector management and public sector accountability. Managers need financial information to assist them to:

- Allocate resources;
- Monitor performance;
- Make decisions;
- Justify actions taken;
- Benchmark performance; and
- Provide advice to the Council.

Financial information provides a measure of accountability by informing residents, ratepayers and local businesses, government agencies, other Councils, financial institutions, creditors, academics and students, members of the media and many other people, of the financial transactions of the Council, but usually at an aggregated level. Typical financial information that satisfies accountability includes:

- Annual financial statements;
- Information provided to the Grants Commission and the Australian Bureau of Statistics;
- Budget information;
- Actual to budget comparisons;
- Specific project estimates and costings; and
- Any other publicly available financial information.

Note that the information does not need to be audited financial information to meet the test of accountability. However, audited financial information is likely to be more credible than unaudited financial information.

The importance of providing financial information has long been recognised. However, the lack of uniformity in its provision has been detrimental to the credibility of the information provided. In developing the revised *Local Government (Financial Management) Regulations 1999* to support the *Local Government Act 1999*, the Steering Committee involved in drafting the regulations suggested the inclusion of a provision to require Councils to ensure that externally provided financial information was made available on a full cost basis. The relevant regulation states:

“Accounting standards

8. (1) Unless otherwise specified by these regulations, a Council, Council subsidiary or regional subsidiary must ensure that all accounting records, accounts and financial statements are prepared and maintained in accordance with all relevant Australian Accounting Standards.

(2) Unless otherwise required or permitted by another law, a Council, Council subsidiary or regional subsidiary must ensure that reporting on a function, activity, good or service of the Council, Council subsidiary or regional subsidiary contained in its financial statements, or in any other external financial report prepared by the Council, Council subsidiary or regional subsidiary, is made according to a full cost attribution basis.

(3) For the purposes of subregulation (2), an external financial report is a report of a financial nature prepared for the information and use of a person or body external to the Council, the Council subsidiary

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and the Council which established the subsidiary, or the regional subsidiary and any constituent Council (as the case may be).

(4) A Council, Council subsidiary or regional subsidiary is not required to comply with subregulation (2) until in respect of the 2002/2003 financial year.”

This regulation is aimed at ensuring that financial information that is specifically provided for uses external to the Council is prepared on a full cost attribution basis. Currently, such financial information is unregulated and no standards have been applied to the way that it will be calculated and reported. The new regulation comes into effect for financial information provided from the 2002/2003 financial year. It does not impose onerous requirements in terms of the full cost attribution methodology to be used, thus allowing smaller Councils, who may not have significant resources, to adopt a cost-effective approach to the provision of such information.

What is an “external financial report”? It is any report that is specifically prepared for a person or body outside of a Council, Council subsidiary or regional subsidiary that includes financial information that relates to a function, activity, good or service. To understand the requirements the following ‘cases’ are provided.

Case 1. Any public consultation document that contains financial information relating to a function, activity, good or service must be prepared on a full cost attribution basis – e.g. proposal for new recreation facility, proposal to upgrade a community bus service, proposal to review the provision of waste management services.

Case 2. The budget is the principal management tool used by the Council and management to allocate and monitor the operations of the Council. From this perspective it is an internally prepared and used document. The Act provides that the budget may be “... in a form determined by the Council.”¹ However, it is also clear that the budget, and its associated annual statement, is intended to be a public document as it must be available for inspection by the public. For this reason where the budget provides financial information on functions, activities, good and services that information must be provided on a full cost attribution basis.

Case 3. In the annual financial statements the only things to consider for reporting on a full cost attribution basis are:

- the information provided to the Australian Bureau of Statistics;
- any notes or disclosures made on functions, activities, goods or services; and
- budget to actual comparisons made on a functional basis.

Note: The annual financial statements generally provide information on what Councils spent their money on (employee costs, materials contracts etc.) while full cost attribution is focused on what it cost to provide the functions, activities, goods and services.

Important Note: When applying full cost attribution there is no distinction between budget and actual financial information. Financial projections for future functions, activities, goods and services which are prepared for an external financial report must also be prepared on a full cost attribution basis.

¹ Section 123, Local Government Act 1999

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There is an argument that the lack of requirement for a specific “full cost” approach continues the lack of consistency in the presentation of externally reported financial information by Councils. Technically, this is correct. Pragmatically, it is always important to consider the benefits that information provides along with the cost of creating and reporting that information. It would be an unnecessary cost burden on small Councils, with few financial resources, to specify a complex full cost attribution system. Similarly, it would be restrictive to larger Councils to specify a simple full-cost attribution system when they have the capacity and expertise to adopt more sophisticated approaches. Effectively, the different resource capabilities and organisational structures of the 68 Councils in South Australia limit the consistency that can be achieved anyway. The provision of full cost attributed financial information is a significant advance over a direct cost approach and the additional information provided by more advanced costing systems can be justified for larger Councils, but probably not for smaller, less-well resourced Councils.

What Is Full Cost Attribution?

Full Cost Attribution Defined

The Local Government (Financial Management) Regulations define full cost attribution as:

“... a system under which all costs, including indirect and overhead costs, are allocated to a function, activity, good or service on a reliable and consistent basis ...”

Full cost attribution seeks to determine the “true” cost of providing a good or service by tracking and accumulating the total costs of the process to create and distribute the good or service. Typically, this includes costs that are incurred in:

- research and development (strategic planning for the provision of goods and services);
- design of the good or service (specifying the requirements, testing the good or service);
- production (creating/building/manufacturing the good or service);
- marketing (informing the community of the availability of goods and services);
- distribution (delivering the good or service to customers); and
- customer service (“after-sales” service, feedback, customising the good or service).

It is likely that the costs associated with research and development and design of many of the goods and services a Council provides will have already been spread or absorbed in previous years, if the provision is long-standing in nature. Alternatively, they may not be significant or material in nature and were absorbed as part of the general overhead associated with the broad provision of local government goods and services.

For new goods and services some effort should be made to allocate such costs over the expected life of the goods or services. Certainly, the design elements of individual capital projects must be included as part of the “cost “ of providing the asset.

There are a number of methodologies that can be used to provide full cost attribution, which are discussed in more detail in the section headed “Full Cost Attribution Methodologies”, and a brief discussion of some of those methodologies follows. Full cost attribution can be contrasted with **direct costing**.

Direct costing is a costing methodology where costs are recorded against various headings, without any attempt to allocate the indirect costs of providing goods and services to those goods and services.

The **Direct Labour method** of costing allocates the indirect costs and overheads incurred to the goods and services supplied according to the number of direct labour hours that were used in producing the goods and services.

Traditional Cost Allocation, of which the **Direct Labour method** is a subset, allocates the indirect costs and overheads incurred to the goods and services supplied on several bases. These include direct labour dollars, direct labour hours, machine hours or direct material costs. All of the allocation bases could be used for different elements of a single good or service. **Activity Based Costing** is a more sophisticated methodology, which reduces the often arbitrary nature of cost allocation by tracing the allocation of resources to

activities, then the activities to outputs (goods or services) and allocates them on the basis of the “drivers” that led to the consumption of resources and activities.

Cost Categorisation

The above categorisation of costs under different steps of the “production” chain is just one way to categorise costs. There are a number of other cost categorisations that are useful to an understanding of the nature of costs and how they are related to the “true” cost of providing goods and services.

Costs can be either **direct costs** or **indirect costs**. A **direct cost** is one that can be specifically assigned to a particular good, service, function or activity – e.g. the labour and material costs associated with cataloguing library books. An **indirect cost** is one that supports the provision of a range of services – e.g. the supervision of staff associated with the acquisition of library books, part of which will be allocated to the cataloguing activity. This same categorisation applies to **overheads**. **Overheads** are costs that are not directly incurred in producing or delivering a good, service, function or activity – costs such as superannuation, leave costs, senior executive salaries, and interest payments on loans. They can also be classed as **direct overheads** and **indirect overheads**. **Direct overheads** such as superannuation and annual leave are directly related to ordinary time hours and can be allocated on that basis, directly to the good, service, function or activity that the labour hours are associated with. **Indirect overheads** may be allocated on some other basis.



Allocating indirect costs is often arbitrary in nature. There is a level of uncertainty about the allocation process. For example, in deciding on how supervision costs are to be allocated a team leader may assess his or her workload over a two-week timeframe and allocate costs to the various functions supervised based on the analysis of the two-week period. If the time frame selected is not typical of normal workloads, then the cost allocation will be incorrect. To some extent, this can be reduced or minimised by aggregating activities together so that allocations are minimised. However, this might lead to a loss of meaningful cost and management information if the aggregation of activities is too great. There is a trade-off between the usefulness of cost information at the micro level and the arbitrary nature of indirect cost allocation.

Costs can be categorised as either **fixed** or **variable**. A **fixed cost** is a cost that does not vary with different levels of service and a **variable cost** is one that does vary with levels of service. For example, in providing a community bus service the fixed costs include the capital cost of the bus. The costs of fuel and maintenance to operate the service will depend on how often the service is used, that is - they vary with the level of service provided. Where the service level varies to such an extent that an additional bus is required to provide additional services, then the fixed cost may be classed as semi-fixed – a cost which varies, in some step-like manner,

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dependent on the volume of the service provided. Semi-variable costs are similar in nature – the cost for an extra bus driver to drive the additional bus.



Fixed costs are only fixed for some period of time. The fixed cost of the bus is only fixed for the period of time that the bus is in service. A new bus will probably have a different fixed cost structure. In the long run, all costs are variable.

A somewhat similar view of costs is obtained by categorising costs as either controllable or non-controllable. The term controllable specifically relates to the ability of the manager to control the costs of providing a good or service. For example, the swimming centre manager - to a large extent - can readily control the labour costs associated with operating a swimming centre. However, the charge for the depreciation of the swimming centre assets will be assigned to the swimming centre and is not controllable by the manager.



Some costs are incurred as a result of a policy direction by the Council. In this case, unless the manager has the ability or flexibility to reduce the costs in certain circumstances those costs may also be considered non-controllable, even if they appear to have the characteristics of controllable costs.

Why Full Cost Attribution?

The reason to provide financial information on a full-cost basis is simple – if you use incomplete costing information you get the wrong answer

Sometimes the information is for internal use (e.g. management reporting or reporting to Council) and sometimes the information is for external use (e.g. provision of costing information to other spheres of government, regional organisations or other partners and stakeholders). In some cases the same information may be useful for internal and external needs (e.g. comparative financial information).

Examples of the use of full cost attribution to get a better answer are:

1. *Comparative Financial Information.* Where the cost of functions and activities are tracked between and across time periods, specifically where there are changes over the timeframes to the means and methods of service provision, including organisational change, a full cost comparison provides more useful information as it tracks the change in costs from both direct and indirect sources.
2. *Benchmarking.* Benchmarking your provision of goods and services with that of other organisations needs to be undertaken on a full cost basis so that all elements of the process are included in the benchmarking analysis.
3. *Informing the Community.* The cost of service provision is of interest to residents, ratepayers, businesses and other interested parties. It is important that where a Council provides such information it does so on a full cost basis. Any other basis could be misleading, as it would understate the “true” cost of service provision.
4. *Decisions on the provision of goods and services.* In making a decision on whether or not to provide a new good or service (or on the maintenance of existing goods and services) it is useful to know what the total cost of providing the service is – in particular where there are competing priorities for resources. For example, where two projects compete for resources and provide similar benefits, the lowest full cost project provides the greatest benefit per outlay and it is likely that it should proceed, on cost grounds.
5. *Pricing Decisions.* It is important to know the full cost of providing goods and services before setting the price that will be charged. Even if it is not intended to charge the full cost it is important to know what the full cost is so that the pricing decision is taken in the knowledge of the subsidy that will be provided from other revenue sources. For example, the *Local Government Act 1999* empowers Councils to charge service rates and charges for a specified range of services. Many Councils use this provision of the Act to levy charges for Septic Tank Effluent Disposal Schemes (STEDS). The Act permits Councils to set a rate that will recover the full cost of operating the scheme including the current capital costs and the cost of replacing capital assets in the future. One Council, when it applied an Activity Based Costing approach to determine the full cost of providing the service, discovered that it was not recovering a significant cost of providing support services to administer the scheme. It was able to justify reducing the amount paid into the STEDS reserve fund so that the support costs could be met from the service charge and is currently

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reviewing the service charge to ensure that it covers the full cost of providing the service.

6. *Competitive Tendering.* Where competitive tenders are sought for the provision of goods and services, and internal bids (from Council staff/business units) are to be included, the internal bids must be prepared on a full cost basis to ensure that genuine comparison of the bids takes place.
7. *Contestability.* Contestability has been defined as:²

“assessing and comparing the efficiency and effectiveness of a current means of service provision by comparison with other providers (private and/or public) to determine whether, in the future, improvements can be made or a service should be contested e.g. through a competitive tendering process.”

This needs to be done on a full cost basis to ensure that all inputs to the process, direct and indirect, are considered and compared with the other provider(s).

8. *Business Unit Costing.* Councils use various mechanisms to provide goods and services. Where Councils use a “purchaser/provider” split, the “providers”, where they are Council staff, are often organised into business units. The cost of the goods and services the Council “purchases” needs to reflect the full cost of the business unit providing the services so that the business unit can be properly funded for the service provision. It would also be useful to know this information, for performance assessment purposes even where the business unit arrangement is not related to a ‘purchaser/provider’ split.
9. *Evaluating Market Opportunities.* Assessing potential opportunities for the provision of goods and services, enhancing the quality of life of the community or developing the local economy is a key activity of Councils. Full cost attribution provides a consistent basis on which to make such assessments, particularly where the ‘opportunity cost’ of competing projects is being assessed.

² Local Government Association (1999), *Service Provision in Local Government – Volume 1*, LGA-SA, Adelaide, Segment 2, p.3.

Costing Methodologies

The Chart of Accounts

It would be an error of judgement to underestimate the importance of having a well-structured chart of accounts that facilitates the collection, aggregation and reporting of costing information. The chart of accounts performs two critical roles:

1. It enables the capture of all of a Council's financial transactions in a systematic manner ; and
2. It facilitates the efficient and effective reporting of the financial transactions to supervisors, team leaders, managers, elected members and the preparation of general purpose financial reports for external users.

The principles for designing a good chart of accounts are:

- Understand the current, and potential future, structure of the organisation – reporting of financial information is usually structured, to a large extent, on organisational lines;
- Understand the needs of the various users of financial information - the chart of accounts must meet their needs, not just the needs of the finance department;
- Understand the capabilities and limitations of the software package used to process financial transactions – most modern general ledger packages provide a variety of methods to collect, aggregate and present financial information;
- Develop a draft structure and consult with the users of financial information to ensure that it meets their needs – it will also be useful to provide for different ways that the data can be presented using the capabilities of the general ledger package; and
- Build in as much flexibility to the chart of accounts as possible – there is nothing more certain than the fact that the organisational structure and the services provided will change.

Financial information is usually sought from two different perspectives. The first perspective is the input view, that is, what Councils spent their money on (employee costs, materials contracts etc.), the inputs to the process. The second perspective is what it cost to provide the functions, activities, goods and services, that is, the outputs from the process. It is important that **both** views are capable of being presented. For example, financial information could be presented from the input view:

Employee Costs	\$ 147,000
Materials	\$ 16,000
Vehicle Hire	\$ 8,000
Plant Hire	\$ 35,000
Contracts	\$ 20,000
IT & Communication Costs	\$ 3,500
Stationery	\$ 1,500
Total	\$ 231,000

Alternatively, it could be presented from the output view:

Dog Control	\$ 10,000
Road Maintenance	\$ 180,000
Administration	\$ 41,000
Total	\$ 231,000

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However, it is much more useful to users of financial information if it is presented in both views simultaneously:

Dog Control	
Employee Costs	\$ 7,000
Materials	\$ 1,000
Vehicle Hire	\$ 2,000
Total	\$ 10,000
Road Maintenance	
Employee Costs	\$ 110,000
Materials	\$ 15,000
Plant Hire	\$ 35,000
Contracts	\$ 20,000
Total	\$ 180,000
Administration	
Employee Costs	\$ 30,000
IT & Communication	
Costs	\$ 3,500
Stationery	\$ 1,500
Vehicle Hire	\$ 6,000
Total	\$ 41,000
Grand Total	\$ 231,000

Achieving both an input and an output view from a chart of accounts is relatively easy. It is simply necessary to construct the 'cost identifier' with two parts – one part that allocates the cost to a function, activity, good or service (the output cost) and the second part to identify the nature and type of expenses (the input cost). Both parts should have a logical and consistent structure, capable of being expanded to meet changing organisational, costing and reporting needs. There will be a hierarchy associated with functions and activities, e.g. :

- Transport
 - Roads
 - Road Reconstruction
 - Road Surface
 - Road Pavement
 - Earthworks

and there will be a hierarchy associated with nature and type of expenses, e.g.:

- Employee Costs
 - Salaries - Direct
 - Salaries – Normal
 - Salaries – Overtime
 - Salaries – Annual Leave.

The coding of 'cost identifiers' needs to be developed in this hierarchical fashion to ensure that the collection of accounting data is at the lowest level possible. This will assist with the categorising and analysing of costs, and the monitoring of all costs, including indirect and overhead costs.

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A costing system must firstly meet the needs of the Council for financial information. But it should also be capable of allowing the costing data to be presented in other ways that meet the external reporting needs of the Council. Modern general ledger packages provide different ways of 'viewing' the costing data – by user defined keys, by multiple charts of account or by allowing additional fields to be associated with the base costing information so that it can be aggregated in different ways. Councils already need to view their data from both a functional perspective and a nature and type perspective to comply with Australian Accounting Standards for external financial reporting.

Additionally, the Australian Bureau of Statistics (ABS) collects a standardised set of financial information from the annual financial statements of Councils and through a supplementary data collection. This data meets the needs of a range of users – the ABS (for national, state and regional statistical purposes), the SA Local Government Grants Commission (for grant determination purposes), other state and commonwealth agencies (for both specific and general statistical information), local governments (for comparative analysis) and consultants, academics and the media.

The ABS collects the data according to standardised classifications of revenues and costs, and functional classifications determined by the Local Government Association in consultation with Councils. The standardised classification is detailed in Appendix 1. As these functions are relatively well known they will be used to present case study information in this section of the guideline.

The Place of Direct Costing

Before discussing full cost attribution methodologies it is useful to review the concept of using direct costs only as a costing methodology. There are two broad methodologies for direct costing.

The simplest approach is to determine the cost of a good or service with reference to direct labour and material costs only, that is the value of employee costs engaged directly in the process, along with the cost of direct materials.

This is a very narrow view of direct costs and it is more likely that direct overhead costs will be included, that is, the direct labour overheads (superannuation, workers' compensation) and direct material and other overheads (plant hire, cleaning materials).



Case Study 1

Direct Costing

The cost of filling in a pothole under a direct costing approach could be determined as follows:

- 1. Simple Direct Costing*
 - *Actual labour cost from payroll*
 - *Actual material cost*

- 2. Direct Costing with Direct Overheads*
 - *Actual labour cost from payroll*
 - *Direct labour overhead (generally a percentage applied to the hourly rate to allocate the cost of leave, leave loading, superannuation contributions, workers' compensation insurance, payroll tax [if incurred] and any other labour overhead cost that varies in accordance with labour hours). Note that some direct labour overheads relate strictly to ordinary hours, so there may be a reduced rate applying to overtime labour hours.*
 - *Actual material cost*
 - *Direct material overhead (generally a percentage to recover the cost of operating a store, cleaning materials, protective clothing)*
 - *Direct other overheads (plant hire charges)*

Direct costing is useful for two reasons. Firstly, it provides front line supervisors with the information about costs that are controllable by them.

More importantly, every cost is a direct cost for some manager or supervisor and every cost is controllable by some manager or supervisor.



Full cost attribution has many uses. However, the aggregation of costs into groups and then the allocation of those costs to specific goods, services, functions or activities is likely to inhibit the control of each and every cost. That is, there is the potential for the costs that are allocated to specific goods, services, functions or activities to become 'hidden from sight' and not controlled effectively. It is important to remember that every cost is the responsibility of some manager or supervisor and that all costs must be controlled to ensure the efficient and effective operation of the Council.

Full Cost Attribution

There is a range of methodologies that can be used to achieve full cost attribution. They range from the simple (direct labour method) to the complex (activity based costing [ABC]) and there are shades in between. The simpler approaches tend to provide more limited information, but have the benefit of being less costly to implement, while the more complex approaches provide more information, but are more expensive to use.



Information is not costless! It is important to balance the cost of obtaining information with the benefits the information provides.



It is not necessary to allocate every cost. In fact, costs that cannot be allocated on a reliable and consistent basis should not be allocated. Such costs may be held in a cost pool such as Governance, Corporate Unallocated or Unallocated Costs.

Typical costs that are likely to be allocated are:

- Accounting/Finance
- Payroll
- Housing for Council Employees
- Human Resources
- Information Technology
- Communication
- Rates Administration
- Water Catchment Levy
- Records
- Occupancy
- Contract Management
- Customer Service
- Other Support Services

(Note: Detail is from Appendix 1.)

There will, however, be examples where costs will need to be apportioned between functions, activities, goods or services. For example, where a manager largely performs a functional role the initial costing may be to the particular function. However, part of the manager's role is likely to relate to the governance of the organisation and an allocation of that portion should be made to Governance.

Note: There will also be occasions where the basis for cost allocations cannot be reliably and consistently determined. No allocation of cost should be made in that situation.

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Direct Labour Method

This is a methodology used in a number of South Australian Councils. It is simple in its operation in that the value of the support services (administration, finance, payroll, information technology, communication, record keeping, depot and store costs) provided to the 'operational elements' of the Council (the goods and services provided to the community) are allocated to the goods and services by a single overhead rate.

Pros and Cons of Direct Labour Method

Pros

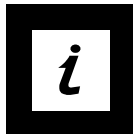
- It is simple.

Cons

- It is arbitrary.
- There is no relationship between the costs allocated and the consumption of the resources the costs represent.
- Where labour costs are a small component of total costs for a particular good, service, function or activity then the overhead allocation will not even approximate an appropriate (fair) share of the overhead costs.

Direct Labour Overheads and Direct Labour Method

The question of whether direct labour overheads are allocated to all labour costs first or whether they are included in an "overall" overhead rate is an issue for consideration. The impact on the final "cost" of goods and services is unchanged, but the impact on the initial cost groupings will vary. The allocation of direct labour costs to the support services before they are allocated to the operational elements provides more information about the costs of providing support services than allocating direct labour costs in a single overhead rate.



One of the cost pools used in Case Study 2 following is 'Governance'. Governance costs include:

- The administration and operation of facilities for elected members of the Council, including allowances and expenses paid to elected members, elected member training and associated expenses, the cost of elections, insurance of elected members, civic receptions, citizenship ceremonies, employee costs of staff providing support to elected members; and
- High level administration and operation of the Council, not specifically associated with any particular service function including portion of CEO's, managers and other staff salaries that do not relate to specific service functions, public relations, community information and corporate communications, legal and project costs not related to specific service functions, subscriptions to industry bodies (e.g. LGA), strategic planning and policy development and annual report preparation.



Case Study 2

Direct Labour Method

Council XYZ has the following broad cost structure:

	Labour Costs	Other Costs	Total Costs	
Accounting/Finance	500,000	100,000	600,000	* Allocate
Culture	850,000	600,000	1,250,000	
Governance	160,000	40,000	200,000	
Information Technology	100,000	100,000	200,000	* Allocate
Plant Hire and Depot	200,000	200,000	400,000	* Allocate
Transport	1,100,000	700,000	1,800,000	
Regulatory Services	290,000	60,000	350,000	
	3,200,000	1,800,000	5,000,000	

The costs to be allocated are the total costs of accounting/finance, information technology and plant hire and depot – the costs shaded in the total costs column – a total of \$1,200,000.

These costs will be allocated across the labour costs of community services, governance, regulatory services and transport – the costs shaded in the labour costs column – a total of \$2,400,000.

The percentage to be used for allocation purposes is 50% (1,200,000/2,400,000).

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Traditional Cost Allocation

In the manufacturing sector, a broader approach to overhead allocation is generally taken. Costs that are deemed to be overheads are accumulated into cost centres, and then allocated on some basis. There may be several different methods of allocating costs used. Typically, they include:

- Direct labour dollars
- Direct labour hours
- Machine hours
- Material costs.

One, some or all of the allocation methods may be applied to various parts of the business. This has the added advantage over the Direct Labour Method of allowing a more appropriate allocation of costs – reducing some of the arbitrariness of the Direct Labour Method. (See Case Study 3 below.)



Case Study 3

In Case Study 2 above, Plant Hire and Depot costs were identified as a cost to be allocated and included in the total costs allocated across the organisation. However, the costs incurred in Plant Hire and Depot mainly relate to the Transport function. There are three main cost groups in the Plant Hire and Depot, Store Operations, Plant Hire and Plant Maintenance.

Store Operations costs can be allocated on the basis of material costs acquired through the store. This would include an allocation to other than Transport where goods are acquired by other areas of the organisation.

Plant Hire costs can be allocated to individual projects based on machine hours utilised

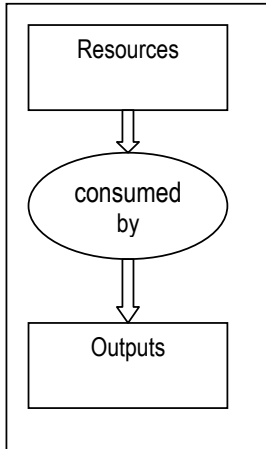
Plant Maintenance costs can be allocated directly to the individual plant item.

A Guideline to Implementing Full Cost Attribution

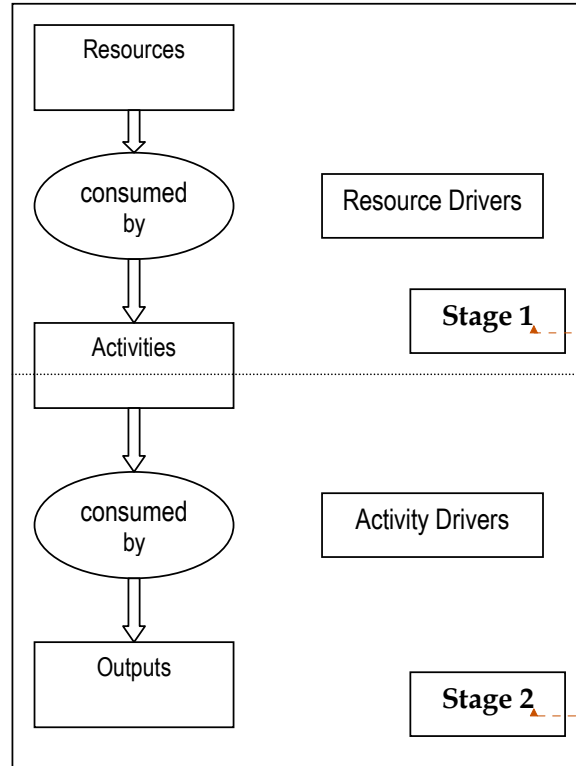
Activity Based Costing (ABC)

Activity Based Costing is a costing methodology that looks at a business as a series of activities that consume resources with the activities producing outputs. This approach differs from the more traditional costing approaches, as shown below.

Traditional Costing Approach



Activity Based Costing



Activity Based Costing essentially adopts a two-stage approach to allocating costs. In the first stage it identifies all the resources that are used in an organisation (people, machines, money) and how they are associated with the activities undertaken (payroll, information technology support, secretarial, etc.). The association between resources and activities should be 'causal', that is the nature of the activities is the cause for the resources being consumed. And costs (resources) are allocated to activities on the basis of the causal relationship. The information and analysis required for the first stage of activity based costing is:

- Identification and classification of all costs (resources) used to perform activities and generate outputs;
- Identification and classification of activities;
- Identifying the causal link between resource consumption and activities, which will become the method used to distribute costs (resources) to activities; and
- Allocate the resource costs to the activities.



Defining activities is not necessarily simple. For example, what is an activity? Is it payroll or is it payroll preparation, payroll processing and payroll distribution? The answer to the question “what is an activity?” depends very much on the use to which the information will be put and the causal link between the activities and the outputs they serve. Where information is useful to make decisions, and the benefits provided exceed the cost of provision, that information should be gathered. In the payroll example, it may be very useful to know what elements make up the cost of the payroll function, particularly to evaluate its efficiency and effectiveness. It may also be the case that each of the ‘sub-activities’ has a different cost driver associated with it and they need to be separately identified for allocation purposes.



Be careful in developing your activity based costing system to ensure that it meets your day-to-day needs for costing information. Do not try and cater for every conceivable costing situation, as the cost of creating such a system is likely to significantly outweigh any benefits. Costing special situations or one-off information requirements is better handled outside the activity based costing system.

The second stage of the process is to determine the outputs (services) provided by the Council and the association between the outputs and the activities that support the provision of the outputs. The steps in this stage are:

- Identify the outputs provided by the Council;
- Determine the causal links between the outputs and the activities which support the outputs; and
- Allocate the activities to outputs using the cost drivers (causal links) identified – e.g. no. of employees, floor space utilised, no. of orders.

Note: In allocating the activities, consideration needs to be given to whether there will be an allocation between activities, e.g. are accounting/finance costs allocated to IT costs, occupancy costs, etc. There are three broad options:

- Do not allocate between activities;
- Decide on a hierarchy of activities and allocate the lowest level activity costs to the next level; or
- Cross allocate activities, on some matrix basis, then allocate the final cost to outputs.



This is a simplified view of the process. The process itself may take many months and iterations to refine and finalise. To make the process effective staff will need to be trained in both ABC concepts and costing methodologies; the costing system will need to be reviewed to ensure it is capable of providing the necessary detail and reporting of ABC results or, alternatively, an off-line ABC system designed; a large amount of data needs to be collected on resources, activities and outputs; and time needs to be committed to reporting and analysing the results, with the potential for further changes to the process.



Case Study 4

Activity Based Costing

Council XYZ produces a range of outputs. The Culture function has three outputs:

- *A library;*
- *A museum; and*
- *A performing arts centre.*

The Council has decided that it wants to cost each of its outputs on a full cost attribution basis using Activity Based Costing.

It has identified that the library uses the following resources:

Direct Costs of Library	
Salaries	375,000
Salary on-costs	125,000
Contracts	28,000
Books – consumable	240,000
Stationery	18,000
Computer consumables	4,900
Training Courses	10,300
Communication Costs	8,900
Travel Expenses	1,900
Depreciation	77,300
Total Direct Costs	889,300

In addition, the library:

- *Required 450 invoices to be processed*
- *Has \$7,000,000 in assets*
- *Made 380 purchase requisitions*

A Guideline to Implementing Full Cost Attribution

- Has 8 employees
- Has \$285,000 in computer hardware
- Has \$155,000 in computer software
- Made 90 help desk calls
- Occupies 700 square metres of floor space
- Had 2,500 files accesses

Activity Groupings to be allocated are:

- Accounting/Finance
- Payroll
- Human Resources
- Information Technology
- Occupancy
- Records Management

Note: Plant Hire and Depot costs are not applicable to the Library.

The Activity Groupings represent the functions that will be spread throughout the Council, based on the cost drivers identified in the ABC analysis. The Council has identified that the activities it wishes to distribute and the drivers to do the distribution are:

- Accounting/Finance
 - Debtors/Creditors no. of invoices
 - Insurance Costs \$ value of assets
 - Purchasing no. of requisitions processed
- Payroll Costs
 - Payroll Preparation no. of employees
 - Payroll Processing no. of employees
 - Payroll Distribution no. of employees
- Human Resources no. of employees
- IT Costs
 - Hardware Maintenance \$ value of hardware assets
 - Software Maintenance \$ value of software assets
 - Help Desk no. of help desk calls
- Occupancy Costs
 - Building – Depreciation floor space occupied
 - Building – Maintenance floor space occupied
 - Building – Operating floor space occupied
- Records Management no. of file accesses

(Note: The Council is currently considering whether it will continue to collect Payroll Costs and Occupancy Costs to the current level of detail, partly because the same driver is used to distribute all three activities of each cost group.)

Two methods of allocating the activities to the Library output will be illustrated.

- Method 1 – Allocate direct cost only of each activity to be allocated
- Method 2 – Allocate level 1 activity costs to level 2 activity costs, then allocate level 2 costs to the Library output.

A Guideline to Implementing Full Cost Attribution

Method 1

The allocation of activities to the Library Resource is:

	Total Direct Cost	Cost Driver	Total Cost Driver	Library
Debtors/ Creditors	\$120,000	No. of Invoices	9,000	450 \$6,000
Insurance	\$80,000	\$ value of assets	\$56,000,000	\$7,000,000 \$10,000
Purchasing	\$165,000	No. of requisitions	3,800	380 \$16,500
Payroll Preparation	\$190,000	No. of employees	100	8 \$15,200
Payroll Processing	\$40,000	No. of employees	100	8 \$3,200
Payroll Distribution	\$10,000	No. of employees	100	8 \$800
Human Resources	\$65,000	No. of employees	100	8 \$5,200
Hardware Mtce	\$178,000	\$ value of hardware	\$2,850,000	\$285,000 \$17,800
Software Mtce	\$54,000	\$ value of software	\$930,000	\$155,000 \$9,000
Help Desk	\$74,000	No. of help desk calls	1,800	90 \$3,700
Building Depreciation	\$42,000	Floor space occupied	7,000	700 \$4,200
Building Maintenance	\$39,000	Floor space occupied	7,000	700 \$3,900
Building Operating	\$78,000	Floor space occupied	7,000	700 \$7,800
Records Management	\$84,000	No. of file accesses	40,000	2,500 \$5,250

A Guideline to Implementing Full Cost Attribution

This gives a final cost of the Library output of \$ 997,850, made up as follows:

Direct Costs	
Salaries	375,000
Salary on-costs	125,000
Contracts	28,000
Books – consumable	240,000
Stationery	18,000
Computer consumables	4,900
Training Courses	10,300
Communication Costs	8,900
Travel Expenses	1,900
Depreciation	77,300
<i>Total Direct Costs</i>	<i>889,300</i>
Activity Costs	
Debtors/Creditors	6,000
Insurance	10,000
Purchasing	16,500
Payroll Preparation	15,200
Payroll Processing	3,200
Payroll Distribution	800
Human Resources	5,200
Hardware Maintenance	17,800
Software Maintenance	9,000
Help Desk	3,700
Building – Depreciation	4,200
Building – Maintenance	3,900
Building - Operations	7,800
Records Management	5,250
<i>Total Activity Costs</i>	<i>108,550</i>
Total Cost of Library	\$ 997,850

A Guideline to Implementing Full Cost Attribution

Method 2

For the purposes of this case study, Accounting/Finance, Payroll, Human Resources and Occupancy are defined as level 1 activities and IT and Records Management are defined as Level 2 activities. The first level of allocation will be:

	Total Direct Cost	Cost Driver	Total Cost Driver	Hardware Mtce.	Software Mtce	Help Desk	Records Mgt.	Allocated
Debtors/ Creditors	\$120,000	No. of Invoices	9,000	300 \$4,000	450 \$6,000	30 \$400	180 \$2,400	\$12,800
Insurance	\$80,000	\$ value of assets	\$56,000,000	\$2,800,000 \$4,000	\$280,000 \$400	\$140,000 \$200	\$420,000 \$600	\$5,200
Purchasing	\$165,000	No. of requisitions	3,800	285 \$12,375	380 \$16,500	19 \$825	95 \$4,125	\$33,825
Payroll Preparation	\$190,000	No. of employees	100	2 \$3,800	2 \$3,800	2 \$3,800	4 \$7,600	\$19,000
Payroll Processing	\$40,000	No. of employees	100	2 \$800	2 \$800	2 \$800	4 \$1,600	\$4,000
Payroll Distribution	\$10,000	No. of employees	100	2 \$200	2 \$200	2 \$200	4 \$400	\$1,000
Human Resources	\$65,000	No. of employees	100	2 \$1,300	2 \$1,300	2 \$1,300	4 \$2,600	\$6,500
Building – Depreciation	\$42,000	Floor space occupied	7,000	200 \$1,200	200 \$1,200	50 \$300	350 \$2,100	\$4,800
Building – Maintenance	\$39,000	Floor space occupied	7,000	200 \$1,115	200 \$1,115	50 \$278	350 \$1,950	\$4,458
Building – Operating	\$78,000	Floor space occupied	7,000	200 \$2,230	200 \$2,230	50 \$558	350 \$3,900	\$8,918
			Allocated	\$31,020	\$33,545	\$8,661	\$27,275	\$100,501

A Guideline to Implementing Full Cost Attribution

This gives a final cost of the IT and Records Management activities as:

	Total Direct Costs	Allocated	Total Cost
Hardware Maintenance	\$178,000	\$31,020	\$209,020
Software Maintenance	\$54,000	\$33,545	\$87,545
Help Desk	\$74,000	\$8,661	\$82,661
Records Management	\$84,000	\$27,275	\$111,275

The allocation of activities to the Library Resource is:

	Cost to Allocate	Cost Driver	Total Cost Driver	Library
Debtors/ Creditors	\$107,200	No. of Invoices	9,000	450 \$5,360
Insurance	\$74,800	\$ value of assets	\$56,000,000	\$7,000,000 \$9,350
Purchasing	\$131,175	No. of requisitions	3,800	380 \$13,118
Payroll Preparation	\$171,000	No. of employees	100	8 \$13,680
Payroll Processing	\$36,000	No. of employees	100	8 \$2,880
Payroll Distribution	\$9,000	No. of employees	100	8 \$720
Human Resources	\$58,500	No. of employees	100	8 \$4,680
Hardware Mtce	\$209,020	\$ value of hardware	\$2,850,000	\$285,000 \$20,902
Software Mtce	\$87,545	\$ value of software	\$930,000	\$155,000 \$14,591
Help Desk	\$82,661	No. of help desk calls	1,800	90 \$4,133
Building Depreciation	\$37,200	Floor space occupied	7,000	700 \$3,720
Building Maintenance	\$35,452	Floor space occupied	7,000	700 \$3,545
Building Operating	\$69,082	Floor space occupied	7,000	700 \$6,908
Records Management	\$111,275	No. of file accesses	40,000	2,500 \$6,955

Note: All the costs to allocate are adjusted because of the first level allocation.

This gives a final cost of the Library output of \$ 999,842, made up as follows:

Direct Costs	
Salaries	375,000
Salary on-costs	125,000
Contracts	28,000
Books – consumable	240,000

A Guideline to Implementing Full Cost Attribution

Stationery	18,000
Computer consumables	4,900
Training Courses	10,300
Communication Costs	8,900
Travel Expenses	1,900
Depreciation	77,300
<i>Total Direct Costs</i>	889,300
Activity Costs	
Debtors/Creditors	5,360
Insurance	9,350
Purchasing	13,118
Payroll Preparation	13,680
Payroll Processing	2,880
Payroll Distribution	720
Human Resources	4,680
Hardware Maintenance	20,902
Software Maintenance	14,591
Help Desk	4,133
Building – Depreciation	3,720
Building – Maintenance	3,545
Building - Operations	6,908
Records Management	6,955
<i>Total Activity Costs</i>	110,542
Total Cost of Library	\$ 999,842

Both methods have given similar final results for the library.

The major advantages of Activity Based Costing over the Direct Labour Method are:

- Allocation of a number of cost pools rather than a single cost pool, providing managers with an opportunity to discuss the allocation in a more knowledgeable way;
- Use of a range of cost drivers to allocate costs, leading to a more accurate cost allocation;
- A greater understanding of costs, cost drivers and costs that add value by analysis of the total cost structure.

A Guideline to Implementing Full Cost Attribution

Modified Activity Based Costing

In Case Study 4 fourteen separate cost pools were created to allocate activity costs to outputs, using nine different cost drivers. The analysis required to identify activities and their associated costs, determine costs drivers, identify outputs and allocate activity costs to outputs is substantial. Some smaller Councils may have difficulty in creating and sustaining such a complex cost allocation structure. An alternative approach, which is somewhat between a Traditional Costing approach and ABC is to create a smaller number of cost pools, with appropriate drivers to allocate costs. Consideration can also be given to the number of outputs that will be specified. A more aggregated range of outputs might be almost as useful, with the capacity to drill down to a more disaggregated level, if necessary.



Case Study 5

Modified Activity Based Costing

Council XYZ produces a range of outputs. The Culture program has three outputs:

- *A library;*
- *A museum; and*
- *A performing arts centre.*

The Council has decided that it wants to cost each of its outputs on a full cost attribution basis using a Modified Activity Based Costing approach. It has identified that the Library uses the following resources:

<i>Direct Costs</i>	
<i>Salaries</i>	<i>375,000</i>
<i>Salary on-costs</i>	<i>125,000</i>
<i>Contracts</i>	<i>28,000</i>
<i>Books – consumable</i>	<i>240,000</i>
<i>Stationery</i>	<i>18,000</i>
<i>Computer consumables</i>	<i>4,900</i>
<i>Training Courses</i>	<i>10,300</i>
<i>Communication Costs</i>	<i>8,900</i>
<i>Travel Expenses</i>	<i>1,900</i>
<i>Depreciation</i>	<i>77,300</i>
<i>Total Direct Costs</i>	<i>889,300</i>

A Guideline to Implementing Full Cost Attribution

The Council has grouped its activities into three main groups, calculated the cost for each group and decided to allocate the costs using the following drivers:

Activity Group	Direct Cost	Driver	Total Cost Driver	Library Quantum	Library Allocation
Administration Costs	754,000	No. of employees	100	8	60,320
IT Costs	306,000	No. of PC's	100	12	36,720
Occupancy Costs	159,000	Floor Area	70,000	7,000	15,900
					112,940

This provides a total cost for the Library output of \$1,002,240 as follows:

Total Direct Costs	889,300
Total Allocated	112,940
Total Library Cost	1,002,240

Limitations/Constraints of Full Cost Attribution

Full cost attribution provides a reasonably accurate picture of the total cost of a function, activity, good or service. However, it is important to recognise that there are limitations and constraints to full cost attribution. Some of these are:

1. *Time frame over which costs are accumulated.* An important principle in accounting is the 'matching principle' – the concept that revenues and expenditures must be matched in terms of a period of time. In the context of full-cost attribution this means ensuring that the costs of providing a function, good, activity or service should relate to the actual service provision for a specific period. Not all costs are readily determinable to a specific timeframe. In fact, the more direct the costs are the more likely it will be that they can be readily attributable to a specific time frame. However, the more remote the link between costs and the service provision, that is, the more indirect the link, then the more difficult it can be to relate the costs with the service provision. Take, for example, the cost of goods used to operate a kiosk as part of a recreation facility. The cost of the products sold is readily traceable from accounting records and there is a direct causal link between the cost of goods sold and sales. However, the other goods used in the process, such as stationery, cleaning materials and the like are less readily traceable. In fact, the shorter the timeframe, the more difficult it is to trace the causal link of indirect material costs. A similar argument exists for the assets used in providing a function, good activity or service.
2. *Unit costs and service provision.* Much of the history of costs and costing is related to the manufacturing sector and the production of large volumes of identical product. While there are some examples of this in local government, many of the services provided by Councils are similar rather than identical and there is an element of individuality about each 'unit' of service provided. It is important to recognise this in providing cost information. There is a valid argument for providing cost information based on the 'range' of costs to provide a service, rather than the 'average' cost of service provision.
3. *Arbitrary cost allocation.* No matter how complex and detailed the costing system adopted there will always be an level of arbitrary allocation of costs. The more comprehensive Activity Based Costing systems will minimise such allocations, but never exclude it completely, particularly when it comes to allocating costs to service provision, where the service provision has a degree of individuality for each 'unit' provided.
4. *Costs increase with the complexity of the costing system.* There is a strong relationship between the complexity of the costing system and its cost to both purchase and operate. Information has a cost and it is important to remember that the benefits provided by the information should outweigh the costs. The public sector does have an additional cost to face in providing financial information – the cost of accountability. While it is difficult to assess the benefits of accountability they must be included when assessing costs and benefits.



Case Study 6

How a time frame can affect the costing output.

*When the Victorian Government legislated for compulsory competitive tendering for local government in the mid-1990 the Victorian Local Government Board introduced the concept of "net avoidable cost". Its definition of net avoidable cost incorporated the belief that Councils should only "... include those overheads and on-costs which would change as a result of the decision to change the mode of works." Clearly, there needs to be a time frame associated with this concept because **all costs are avoidable in the long term**. This was explicitly recognised by the Victorian Government because it permitted certain costs to be excluded from the assessment of the contract process in the first round of competitive tenders, where in-house bids were part of the process, but stated that those costs would not be excluded in the second round of the process.*

This reinforces the need to understand what every cost is in a particular process (full cost attribution) with the ability to then categorise those costs further into avoidable or non-avoidable over a certain time frame.

Implementing Full Cost Attribution (FCA) in Your Council

The legislation requires that financial information on functions, activities, goods or services prepared for external users in relation to the 2002/2003 financial year, and subsequent financial years, be prepared on a full cost attribution basis. To meet this time frame and to implement full-cost attribution effectively there are a number of steps that Councils will need to undertake. The following checklist will assist in the process. Note that there is scope for some of these steps to be undertaken concurrently.

Step 1	Develop preliminary implementation plan <ul style="list-style-type: none"> • Determine time frame available for implementation • Identify key players (e.g. Audit Committee, if in place) • Schedule steps and tasks • Promulgate time table and set responsibilities • Communicate with Elected Body • Ensure adequate resources available
Step 2	Assess current situation <ul style="list-style-type: none"> • Assess current external reporting practices (no. of external reports, compliance with ABS requirements) • Assess current skills and experience in costing of financial staff • Assess capability of current financial system to provide costing information (modern GL package?; flexible system) • Assess suitability of chart of accounts to record costs in an appropriate manner (and timeframe for change – July 1 is best time to implement new chart of accounts)
Step 3	Decide FCA methodology to adopt <ul style="list-style-type: none"> • Based on assessment of system and skill availability determine an appropriate FCA methodology to use (Direct labour method, traditional cost allocation, Modified ABC, ABC) • Determine any gaps in skills, systems and chart of accounts • Develop plan to overcome any gaps found <ul style="list-style-type: none"> ○ Hardware purchases ○ Software purchases ○ Staff and management training • Decide on: <ul style="list-style-type: none"> ○ timing of cost allocation (e.g. monthly, quarterly) ○ whether cost allocation is based on budget or actual
Step 4	Review and finalise implementation plan <ul style="list-style-type: none"> • Based on information from Steps 2 and 3, finalise implementation plan • Get commitment from managers on the appropriateness of the planned cost allocations • Finalise responsibilities for actions in implementation plan • Develop some contingency plans to ensure that legal liability to produce FCA reports will be met • Communicate with Elected Body
Step 5	Upgrade skills and systems <ul style="list-style-type: none"> • From step 3, implement planning to overcome gaps in <ul style="list-style-type: none"> ○ financial staff skills (training) ○ accounting system (hardware/software) ○ chart of accounts (implement new , if necessary)

A Guideline to Implementing Full Cost Attribution

Step 6	Awareness raising for elected members, senior and other staff <ul style="list-style-type: none">• Develop material to improve awareness of elected members, senior and other staff in FCA• Schedule awareness raising sessions• Present awareness raising• Assess potential for use internally
Step 7	Trial production of financial information on an FCA basis <ul style="list-style-type: none">• Select several areas to produce FCA reports• Develop FCA reports• Review adequacy and usefulness of methodology• Implement any changes to procedures and finalise reporting framework• Prepare some internal reports on FCA basis for assessment by elected members and senior staff
Step 8	Produce FCA reports as necessary <ul style="list-style-type: none">• Implement finalised methodology• Monitor reception of reports• Modify reporting framework as necessary• Look to 'institutionalise FCA both internally and externally

A Guideline to Implementing Full Cost Attribution

Frequently Asked Questions

Do I have to use Activity Based Costing?

No, it is not a requirement that you use Activity Based Costing. You should assess your costing needs, both internally and externally, and choose a full cost attribution system that is cost-effective, capable of delivering full cost information in a reliable and consistent manner and able to be managed by your financial and other staff.

Do I do this within the ledger or as an off-ledger system?

Councils already using full cost attribution have adopted both approaches. However, some Councils using activity based costing prefer to do the activity analysis and allocation off-ledger.

You need to assess whether your general ledger system can cope with providing the costing information efficiently and effectively. If this is not the case, it will be better to do the full cost allocation using an off-ledger spreadsheet approach.

However, most modern general ledger systems should be able to handle full cost allocation through the ledger.

Should the budget be prepared on a full cost attribution basis?

While not a legal requirement, the budget will be more useful prepared on this basis. It will then show the full cost of providing services to the community. More importantly, budgeting on a full cost attribution basis will ensure that the pricing decision is taken in the full knowledge of all relevant costs.

How do I apply Activity Based Costing to Capital projects?

It is probably best to set up a cost pool (or series of cost pools) that will hold the direct costs of capital projects. Then assess what resources and activities are consumed by capital projects and allocate the resources and activities proportionately to the individual capital projects based on their dollar value. You may have more than one cost pool as different types of capital projects may have different resource and activity consumption patterns. For example, the purchase of capital equipment and the construction of a building are likely to have very different resource and activity patterns.

Appendix 1 - Standardised Cost and Revenue Classifications

BUSINESS UNDERTAKINGS

- Abattoirs
- Caravan Parks / Tourist Accommodation
- Electricity Supply
- Gravel Pits/Quarries
- Development of Land for Resale
- Marinas / Boat Havens
- Markets / Saleyards
- Off-street Carparks - fee-paying
- Private Works
- Property Portfolio
- Sewerage/STED
- Water Supply - Domestic
- Town Bus Service
- Other - please specify:

COMMUNITY SERVICES

- Public Order and Safety
 - Crime Prevention
 - Emergency Services
 - Other Public Order and Safety

Health Services

- Pest Control - Health
- Immunization
- Nursing Homes
- Preventive Health Services
- Other Health Services

Community Support

- Elderly Citizens Facilities
- Home Assistance Scheme / HACC
- Other Services for the Aged and Disabled
- Child Care Centres
- Children and Youth Services
- Community Assistance
- Community Transport
- Family and Neighbourhood Support
- Other Community Support

Community Amenities

- Bus Shelters
- Cemeteries / Crematoria
- Public Conveniences
- Car Parking - non-fee-paying
- Telecommunications Networks
- Other Community Amenities

CULTURE

- Library Services
 - Mobile Libraries and Housebound Services
 - Static Libraries
 - Other Library Services

Cultural Services

- Cultural Venues
- Heritage
- Museums and Art Galleries
- Other Cultural Services

ECONOMIC DEVELOPMENT

- Employment Creation Programs
- Regional Development
- Support to Local Businesses
- Tourism
- Other Economic Development

ENVIRONMENT

- Agricultural Services
 - Agricultural water
 - Animal/Plant Boards
 - Landcare
 - Other Agricultural Services

Waste Management

- Domestic Waste
- Green Waste
- Recycling
- Transfer Stations
- Waste Disposal Facility
- Other Waste Management

Other Environment

- Coastal Protection
- Stormwater and Drainage
- Street Cleaning
- Street Lighting
- Streetscaping
- Other Environment

RECREATION

- Jetties
- Other Marine Facilities
- Parks and Gardens
- Sports Facilities - Indoor
- Sports Facilities - Outdoor
- Swimming Centres - Indoor
- Swimming Centres - Outdoor
- Other Recreation

REGULATORY SERVICES

- Dog and Cat Control
- Building Control
- Town Planning
- Clean Air/ Pollution Control
- Litter Control
- Health Inspection
- Parking Control
- Other Regulatory Services

TRANSPORT

- Aerodrome
- Bridges
- Bus Service
- Footpaths and kerbing
- Roads - sealed
- Roads – formed
- Roads - natural formed
- Roads –unformed
- Traffic Management
- Other Transport

PLANT HIRE & DEPOT/INDIRECT EXP.

UNCLASSIFIED ACTIVITIES

COUNCIL ADMINISTRATION

Governance

- Administration n.e.c.
- Elected Members
- Organisational

Support Services

- Accounting/Finance
- Payroll
- Housing for Council Employees
- Human Resources
- Information Technology
- Communication
- Rates Administration
- Water Catchment Levy
- Records
- Occupancy
- Contract Management
- Customer Service
- Other Support Services

Glossary

Controllable cost – a cost that can be directly controlled by a manager – e.g. direct labour and direct material costs

Cost driver – a factor that affects costs, the reason why costs behave as they do.

Cost pool – a grouping of cost items

Direct cost - a cost that can be specifically assigned to a particular good, service, function or activity – e.g. the labour and material costs associated with cataloguing library books.

Fixed cost - a cost that does not vary with the volume of service provision – e.g. capital cost of plant, equipment and buildings

Full cost attribution - a system under which all costs, including indirect and overhead costs, are allocated to a function, activity, good or service on a reliable and consistent basis.

Incremental costs – the costs to move to a different service level (e.g. the costs to move to a weekly litter bin collection, rather than a fortnightly collection – additional staff, vehicle, protective clothing, supervision etc.) This concept is aligned to the notion of semi-fixed and semi-variable costs.

Indirect cost - a cost that supports the provision of a range of services – e.g. supervision costs

Marginal cost – the cost to produce one additional unit of a good or service (e.g. register one extra dog, produce one extra rate notice, pay an extra invoice). This concept is closely aligned to the notion of variable cost.

Non-controllable cost – a cost over which a manager has no control – e.g. allocated overheads from another part of the organisation.

Opportunity cost – the net benefit foregone by not using an asset for its best alternative use (e.g. the benefits foregone by converting a small reserve into a commercial allotment). This concept is useful to assess whether the best allocation of resources has been made – by assessing the benefits from the best alternative use of an asset and comparing them with the benefits for a proposed use of the asset and ensuring that the proposed use benefits are greater. For example, if a building can be either rented out to a local business or used to provide facilities to community groups, the net benefit foregone if the building is used to provide facilities for community groups is the revenue from the rental less any cost of earning the revenue.

Overhead – a cost that is not directly incurred in producing or delivering a good, service, function or activity – e.g. superannuation, leave costs, senior executive salaries, and interest payments on loans. Overhead costs can be categorised as either direct overhead (costs that are directly related to the inputs to a process such as workers' compensation insurance, annual leave loading) and indirect overhead (costs that are not directly associated with a process such as bank charges, public liability insurance).

A Guideline to Implementing Full Cost Attribution

Semi-fixed or semi-variable cost – a cost which varies, usually in a step-like manner, dependent on the volume of the service provided. For example, the capital costs associated with moving to a greater level of service are semi-fixed; a new staff member to cater for an increased level of service is an example of a semi-variable cost.

Variable cost - a cost that varies with the volume of service provided– e.g. number of labour hours, materials consumed.

Further Resources

Deloitte Touche Tomatsu (2000), *Comparative Performance Measurement in Local Government*, LGA-SA, Adelaide

KPMG Management Consulting (1995), *Costing Methodology for Local Government in South Australia*, Local Government Research Foundation, Adelaide.

Local Government Association of South Australia (1999), *Local Government Comparative Financial Information Reporting*, LGA-SA, Adelaide.

Local Government Association of South Australia (2001), *A Framework for Local Government Financial Management*, LGA-SA, Adelaide.