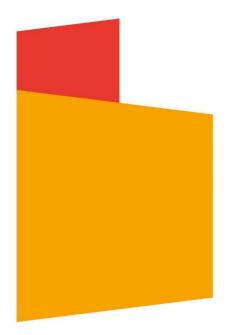# QUEANBEYAN-PALERANG REGIONAL COUNCIL

Council Meeting Attachment

28 JUNE 2018

ITEM 4.2   ACTIVITY COST ATTRIBUTION AND DISTRIBUTION OF GOVERNANCE DIRECTIVE

ATTACHMENT 1   ACTIVITY COST ATTRIBUTION AND DISTRIBUTION OF GOVERNANCE POLICY

Page 124 of the Extraordinary Meeting of the QUEANBEYAN-PALERANG REGIONAL COUNCIL held 28 June 2018.

Cr Tim Overall – Mayor, Chairperson

Activity Cost Attribution and Distribution of Governance

Date policy was adopted:	
Resolution number:	
Next Policy review date:	30 June 2019
Reference number:	

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Activity Cost Attribution and Distribution of Governance Policy

1   OUTCOMES:

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, 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)
- customer service ("after-sales" service, feedback, customising the good or service).

The level of corporate overheads varies in NSW Government agencies depending on size, with acceptable benchmarks for the proportion of staff engaged in corporate services activities being:
- large agencies (1,000 FTE) 8-10%
- medium agencies (350 to 1,000 FTE) 10-12%
- small agencies (less than 350 FTE) 12-14%.

2   DIRECTIVE:

Council deploys an 'activity based costing' (ABC) approach to budgeting, pricing and reporting.

Direct costs will be recorded through invoices and the like, and *charged* directly to a nominated cost centre (activity), and recorded as an employment, material, contract and the like expense (resource).

Internal Labour Costs will be charge to projects at a labour rate including costs of salary and the associated on-costs.

Plant costs will be *charged* at a hire rate calculated on the life-cycle cost of ownership and operation of the item of plant.

Corporate support costs (direct and indirect overhead) will be *attributed* to an activity on a full cost recovery basis as a percentage charge on the FTE wage expense allocated to an activity.

Property Management costs (rates, electricity and maintenance) will be *attributed* to an activity on a full cost recovery basis as a percentage charge on the FTE wage expense allocated to an activity.

Project management costs will be *attributed* at 4% of the total capital expenditure, and capitalised against the created asset.

Governance costs will be *distributed* between Funds (General, Water, Sewer, Waste) on the apportioned share of total rateable assessments or services of those Funds.

There will be two reasonableness tests:
- total distribution should not exceed total corporate support expense
- attributed support to each Fund should not exceed 12% of respective Fund's operational expenditure (OPEX)

Commercial and competitive pricing will be set at a level to recover attributed costs.

Activity Cost Attribution and Distribution of Governance Policy

3   DEFINITIONS AND APPLICABILITY

Cost Categories

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.

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

Definitions

Attribution - The assignment of apportioned corporate support costs to activities.

Capital Project – expenditure on a project that results in the creation or renewal of a Council asset.

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.

Distribution – The assignment of apportioned governance cost to Funds.

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

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.

Overhead (corporate support) – 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).

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Activity Cost Attribution and Distribution of Governance Policy

Property – a cost incurred in providing premises for Council operations. Costs include water usage, electricity, depreciation and property maintenance.

Project Management – a cost incurred for providing project management expertise and project governance to capital projects.

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

Applications

The quadruple bottom line framework adopted by Council assigns an accounting regime to the projects and programs prioritised for funding in the Delivery Program. The highest ranked projects are assessed along life-cycle principles for consideration by the elected body.

Chart of Accounts (CoA)

It is important to have 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 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 section.
- 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.
- 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.

Activity Cost Attribution and Distribution of Governance Policy

CoA Hierarchy

Council adopted a 'services and program framework' aligned to the strategic pillars of Community, Choice, Character, Connection and Capability. (Attachment 1 – Service Framework).

The Chart of Accounts has been designed to align with that framework, adding a further layer 'activity'. The framework reflects the organisation structure so that services are assigned to Level 2, programs to Level 3 and Activities to Level 4. For example:

Service: Transport
Program: Urban Sealed Roads
Output: Renewal
Activity: Traffic Control

4   LEGISLATIVE OBLIGATIONS AND/OR RELEVANT STANDARDS

The NSW Office of Local Government Accounting Code (The Code) defines "governance" costs as including the following:
- general meetings of Council and corporate policy making committees
- elected members' fees, allowances, and expenses
- local elections
- subscriptions to local authority associations
- preparation of business papers and related reports and minutes of meetings.

The Code requires that other overheads including "accommodation costs, general administrative salaries and on-costs, printing, photocopying and stationery, publications and subscriptions, postage and telephone, bank charges, insurance, payroll services and security, occupational health and safety training and equipment, office equipment - depreciation, office building - maintenance, office cleaning, electricity, interest expense and debit charges" ... "must be apportioned to individual activities where a reliable basis exists..'.

5 CONTENT:

Attributed Costs:
- Workplace (Human Resources)
- People and Culture (organisational Development)
- Digital (Information Technology)
- Finance
- Store

Distributed Costs:
- Elected members
- Office of the Chief Executive
- Portfolio General Mangers
- Communications
- Customer Service
- Governance
- Legal & Risk
- Record Management

Property Costs:
- Property Maintenance
- Electricity
- Water Usage

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Activity Cost Attribution and Distribution of Governance Policy

- Debt servicing

Project Management Costs
- Expenditure occurred for Capital Projects.

6 PERFORMANCE INDICATOR:

- Total distribution should not exceed total corporate support expense
- Total attributed support to each Fund should not exceed 12% of respective Fund's operational expenditure.

7 RELATED DOCUMENTS:

Revenue and Pricing Policy.

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Attachment 1 – Service Framework

Service Framework Matrix

	COMMUNITY	CHOICE	CHARACTER	CONNECTION	CAPABILITY	COUNCIL
Service	1 culture	11 business	21 urban development	31 transport	41 people	51 strategy
	2 community	12 health	22 rural development	32 water	42 technology	52 executive
	3 education		23 urban landscapes	33 sewer	43 financial	
	4 recreation		24 natural landscapes	34 waste	44 quality	
			25 sustainability	35 facilities	45 risk	
			26 strategic planning	36 logistics	46 property	
KRA	1-3	1-3	1-3	1-3	1-3	1-3
Program	1.1 cultural development	11.1 economic	21.1/22.1 development assessment	31.1 roads	41.1 human resource mgt/IR	51.1 IPR/Performance
	1.2 performance	11.2 tourism	21.2/22.2 subdivision assessment	31.2 bridges	41.2 capability and development	51.2 Sustainability
	1.3 community gathering	11.3 events	21.3/22.3 subdivision certification	31.3 paths/cycleways	41.3 payroll	51.3 Property
	1.4 events	11.4 conference	21.4/22.4 development contributions	31.4 traffic/safety	41.4 WHS/wellbeing	51.4 Asset
	1.5 museums	11.5 place management	21.5/22.5 development control	31.5 parking	41.5 customer/asset triage	51.5 Workforce
	1.6 sister city	11.6 development liaison	21.6 new release	31.6 public transport	42.1 network	51.6 Communications
	2.1 children	11.7 certification	23.1 parks/playgrounds/sportfields	31.7 cross border/smart city	42.2 systems	51.7 Financial
	2.2 youth	11.8 saleyards	23.2 CBD	32.1 water operations	42.3 applications	51.8 Client UX
	2.3 aged	11.9 caravan parks	23.3 signage	32.2 water infrastructure	42.4 digital workplace	52.1 Public/Privacy office
	2.4 indigenous	12.1 food/premises	23.4 heritage	32.3 stormwater	42.5 records	52.2 Code and Complaint
	2.5 disabled	12.2 cemetery	23.5 public amenities	33.1 sewer operations/recycling	42.6 telecoms	52.3 Meetings
	2.6 community development		23.6 community land	33.2 sewer infrastructure	43.1 accounting	52.4 Legal
	2.7 engagement		24.1 NRM/biodiversity	34.1 waste operations	43.2 revenue	52.5 Governance
	3.1 library		24.2 catchment	34.2 waste infrastructure	43.3 reporting	52.6 Elections
	3.2 knowledge		24.3 vegetation	35.1 buildings	43.4 procurement/store	52.7 Councillors
	3.3 by laws		24.4 environ health	35.2 energy	43.5 grants	52.8 CBRJO
	3.4 animals		25.1 education	35.3 security	43.6 budget	
	4.1 indoor sports		25.2 climate	35.4 sustainability	44.1 business excellence	
	4.2 aquatic		25.3 monitoring and reporting	36.1 design/support	44.2 business analysis	
	4.3 events		25.4 sustainability projects	36.2 asset planning	44.3 business reporting	
			26.1 landuse	36.3 emergency	44.4 quality assurance	
			26.2 profiling	36.4 plant/fleet/workshop	44.5 red tape reduction	
			26.3 spatial/LIS/naming	36.5 RMS contract	44.6 projects	
			26.4 certificates	36.6 projects	45.1 risk	
				36.7 private works	45.2 insurances	
					45.3 audit	
					45.4 business continuity	
					46.1 office	
					46.2 depot	
					46.3 administration	

Staff FTE

Asset $m

Budget $m

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Activity Cost Attribution and Distribution of Governance Policy

POLICY:-	
Policy No:	
Policy Title:	Activity Cost Attribution and Distribution of Governance
Date Policy was adopted by Council:	25 January 2017
Resolution Number:	
Previous Policy Review Date:	
Next Policy Review Date:	
PROCEDURES/GUIDELINES:-	
Date Procedure/Guideline (if any) was developed:	
RECORDS:-	
Container Reference in TRIM: Policy	
Container Reference in TRIM: Procedure	
Other locations of Policy:	Intranet (linked to TRIM Container)
Other locations of Procedures/Guidelines:	Intranet (linked to TRIM Container)
DELEGATION (if any):-	
RESPONSIBILITY:-	
Draft Policy developed by:	
Committees (if any) consulted in the development of the Draft Policy:	
Responsibility for Implementation:	
Responsibility for Review of Policy:	

INTEGRATED PLANNING FRAMEWORK:	
Strategic Direction (CSP):	
Service:	
Program:	

Senior Authorising Officer	Position	Signature/Date
	General Manager	(Signed and dated)

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Activity Cost Attribution and Distribution of Governance Policy

ACTION	COUNCIL MEETING DATE	RESOLUTION NUMBER	REPORT ITEM NUMBER
NEW/RECONFIRMED/ AMENDED			

DATE REVIEWED	REVIEWER POSITION	REVIEWER NAME

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