

Activity Cost Attribution and Distribution of Governance

Date policy was adopted:	28 June 2018
Resolution number:	236/18
Next Policy review date:	30 June 2019
Reference number:	

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.

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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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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.

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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 Managers
- Communications
- Customer Service
- Governance
- Legal & Risk
- Record Management

Property Costs:

- Property Maintenance
- Electricity
- Water Usage

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- 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

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

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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 General Manager	Signature/Date (Signed and dated)

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

DATE REVIEWED	REVIEWER POSITION	REVIEWER NAME