



Full Cost Attribution Policy

Policy Identification:	
Policy type:	Finance
Summary:	The policy provides guidance when attributing costs to functions, activities, goods and services of Council.
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Date of last review:	
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Authorisation:	Council
Responsible department:	Executive Services
Responsible officer (s):	Chief Finance Officer
Review officer (s):	Chief Finance Officer
Consultation required:	
Relevant references:	Reg 11 Local Government Act 1999. Financial Management Regulations
Delegations:	Chief Executive Officer / Chief Finance Officer and Delegations Register
Legislation:	Local Government Act 1999 Local Government (Financial Management) Regulations 2011 Accounting Standards Accounting Regulations
Related policies:	Accounting Policy
Related procedures:	

1. Introduction

The purpose of this policy is to provide guidance when attributing costs to functions, activities, goods and services of Council.

2. Policy objectives

The Local Government (Financial Management) Regulations 2011 Reg. 3 defines “full cost attribution basis means 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 (which may be unique to a particular council, council subsidiary or regional subsidiary).”

Further the Local Government (Financial Management) Regulations 2011, Reg. 11 (1) and (2) states that every Council must ensure all accounting records, accounts and financial statements are prepared and maintained in accordance with all relevant Australian Accounting Standards and that a full cost attribution basis must be applied when reporting on a function, activity, good or service in financial statement or external financial reports.

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.

Full cost attribution means using a reliable and consistent basis to include the following costs in the total cost of providing a service or output:

- 100% of direct costs
- An appropriate proportion of indirect costs
- An appropriate proportion of overhead costs.

3. Policy statements

Council will apply full cost attribution processes in the following manner:

3.1 Costs to be allocated

An indirect cost is one that is not directly related to, but supports the provision of one or more functions, activities, goods or services of Council. The following are a list of functions which are considered to support all other functions of Council.

Function relating to Governance of Council being:

- Work Health and Safety and Risk Management
- Governance – administration
- Elected Members
- Public Relations
- Economic Development

Functions relating to Corporate Services being:

- Financial Management
- Human Resources and Payroll
- Information Technology
- Communications
- Rates Administration
- Records Administration
- Customer Services
- Other Support Activities

3.2 Methodology

The process of assigning costs to Council functions, activities, goods and services relies upon the existence of:

- a) A link between activities and the consumption of resources, and
- b) A link between those same activities and the provision of specific outputs

Where no link exists between an activity and an output, no costs relating to that activity should be attributed to that output.

Council considers there to be appropriate links between the above listed costs relating to Governance and Corporate Services to attribute these costs to the following specific outputs:

- All operating activities for Community Services, Environmental Services and Infrastructure Services
- Some capital activities for Environmental Services and Infrastructure Services.

Indirect costs are not assigned to outright purchases for Plant and Equipment.

Cost Drivers

Cost drivers are factors which influence the cost of an activity. Appropriate cost drivers must be reliable, consistent and relevant.

Council has taken into account the following factors when choosing cost drivers:

- The cost versus the benefit of collecting cost driver data,
- Assessment of materiality, ie. the basis for allocation not significantly changing the outcome.
- Lack of reliable supporting data.
- Simplicity and consistency.
- The arbitrary nature of allocating indirect costs.

Council has chosen to allocate all indirect costs on a proportional basis, being the total expenditure for each function as a percentage (%) of total expenditure.

Example: Total operating expenditure - \$22,000,000
 Total operating expenditure for Dog Control - \$332,000
 Therefore % of total expenditure for Dog Control – 1.51%

Application

Council assigns operating costs from its Governance and Corporate Services functions in a 2 step process:

Step 1 - Indirect costs are assigned to all operating functions relating to the Community Services, Environmental Services and Infrastructure Services departments on a proportional basis (as described above).

Step 2 - The aggregate of indirect costs applied to the Environmental Services and Infrastructure Services Departments resulting from Step 1 be further assigned (on a proportional basis) to the capital works activities for each department respectively.

Reporting

Full cost attribution need only be applied:

- When reporting on a function, activity, good or service of the Council;
- In financial statements and external financial reports

(Local Government (Financial Management) Regulations 1999, Reg. 11)

Annual Financial statements - although an external document, are reported from an input perspective and are not presented on a 'function or activity' basis and therefore the attribution of costs is not required other than determining the proportion of indirect costs applied to capital expenditure. Notes and disclosures within the annual financial statements reporting on functions, activities, goods and services need to be prepared using full cost attribution. Due to full cost attribution to capital projects the result will be a reduction in operating expenditure and an increase in capital expenditure.

Budgets – once tabled for consideration and/or approval by Council and are therefore considered external financial reporting require full cost attribution to be applied.

Financial and operational performance reports and budgets prepared for internal management are excluded from external financial reporting requirements.

4. Availability

This Policy will be available for inspection at the Council Offices at Loxton or Waikerie during ordinary business hours at no charge.

Copies of this Policy will also be available from Councils website www.loxtonwaikerie.sa.gov.au or postal copies may be obtained from the Council Office, free of charge.

5. Document history and version control

Date	Version	Authorisation: Council/ Committee/Senior Management Team	Amendment details
27/03/2019	1.0	Audit Committee meeting of 27 March 2019	First version