Full Cost Attribution Policy

Council Policy

Renmark Paringa Council

Responsible Officer	Manager Financial Services
Relevant Legislation	Reg 11 Local Government Act 1999. Financial Management Regulations Local Government Act 1999 Local Government (Financial Management) Regulations 2011 Accounting Standards Accounting Regulations
Adopted	23 July 2024
Reviewed	
Next Review	June 2028

1. Introduction

This document sets out the policy of Renmark Paringa Council (Council) for the application of full cost attribution to attribute costs to functions, activities, goods and services of Council.

2. Scope

This Policy is applicable to the accounting allocation (applying full cost attribution) of all direct and indirect costs across functions of council in financial statements and external financial reports, or when reporting on a function, activity, good or service of the Council in internal reports (at management's discretion).

3. Purpose

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.

The Local Government (Financial Management) Regulations 2011 Reg. 3 defines 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 (which may be unique to a particular council, council subsidiary or regional subsidiary)."

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.

This policy endorses these requirements to ensure compliance with the Act.

The purpose of this policy is to provide a framework for Council and Management in relation to the application of full cost attribution to attribute costs to functions, activities, goods and services of Council in compliance with the Local Government Act.

4. Definitions

Key Term – Acronym	Definition
Direct cost	A cost that is directly and wholly attributable to: • the creation of an asset / product • performing a specific function / activity, or • delivery of a specific service.
Full cost attribution	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 / overhead costs.
Indirect / overhead cost	A cost that is not directly attributable to, but supports the provision of, two or more functions, activities, goods or services of Council. For example, administrative costs, accounting services, human resources, information systems costs, occupancy, record-keeping.

5. Roles & Responsibilities

5.1 Council
Is responsible for approving the policy and for ensuring that a budget is adopted that achieves the key budget principles.

5.2 Audit & Risk Committee:
The Committee shall review and provide advice on Council's Annual Financial Statements, including consideration of function disclosures based on the application of this policy.

5.3 Chief Executive Officer:
The CEO is responsible for resourcing the implementation of the full cost attribution policy and supporting procedures.

5.4 Manager, Financial Services:
The Manager, Financial Services is responsible for overseeing the application of this full cost attribution methodology within the financial system and annual financial statements.

5.4 Employees:
Employees are responsible for adhering to the policy.

6. Policy Statements

6.1 This Policy applies the provisions of the Local Government (Financial Management) Regulations 2011 Reg. 11 (1) and (2), which require 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 a financial statement or external financial reports.

6.2 This Policy describes the methodology for how Council will apply full cost attribution to financial transactions for the purpose of reporting on a function, activity, good or service in a financial statement or external financial reports.

6.3 This Policy provides a reliable and consistent basis for the allocation of costs. Reliability and consistency underpin the preparation of good financial reports. Information is reliable if it is without bias or error, faithfully representing the underlying transactions and two different persons preparing the information would both present the same aggregated information from the same transactions. Information is consistent if it is presented on the same basis from accounting period to accounting period, i.e. the same sets of transactions are aggregated in the same way. Consistency is also achieved by applying the same categorisation, allocation and aggregating methods to all transactions used to prepare financial information, i.e. a uniform and consistent methodology for allocating indirect costs to functions, activities or services.

7. Policy Principles

7.1 **Functions** – all costs will be attributed to one of the following council functions:

Governance - Elected member support, strategic planning, policy development, risk management, internal audit, public relations and communication.

Community - Public order and safety, crime prevention, emergency services, other fire protection, other public order and safety, health services, pest control – health, immunisation, preventive health services, other health services, community support, senior citizens facilities, children and youth services, community assistance, other community support, community amenities, bus shelters, cemeteries / crematoria, public conveniences, car parking – non-fee-paying and other community amenities.

Cultural - Library services, other library services, cultural services, cultural venues, heritage, museums and art galleries and other cultural services.

Economic - Regional development, tourism, visitor information and other economic development.

Environment - Animal/plant boards, waste management, domestic waste, green waste, recycling, transfer station, other waste management, other environment, stormwater and drainage, street cleaning, street lighting, street-scaping, Natural Resource Management levy, and other environment.

Recreation - Parks and gardens, sports facilities – indoor, sports facilities – outdoor, swimming centres – Outdoor, and other recreation.

Regulatory - Dog and cat control, building control, town planning, clean air/pollution control, litter control, health inspection, parking control, and other regulatory services.

Transport - Footpaths and kerbing, roads – sealed, roads – formed, roads – natural formed, roads – unformed, traffic management and other transport.

Plant & Depot Operations - Depot management, indirect and general plant cost not included in other functions.

Other - Finance charges and investment revenue, private works and sundry property maintenance.

7.2 Costs to be allocated - All costs, direct and indirect, associated with providing a function, activity or service are allocated to the function, activity or service.

The following costs are to be allocated:

- The direct labour, material, contract, plant hire and other costs associated with the function, activity or service – i.e. the costs that are wholly attributable to the particular function, activity or service. Note that this will include the direct overheads associated with those costs such as employee superannuation costs;
- The indirect costs of providing the function, activity or service – i.e. an allocation of joint costs where two or more functions, activities or services are served by the one process and the apportionment of support costs.

The following is a list of functions / activities which are considered to support all other functions of Council, and are to be allocated as **support costs**:

- Financial Management
- Human Resources and Payroll
- Information Technology / Information Systems
- Rates Administration
- Records Administration / Management
- Leasing
- Customer Services
- Other Support Services

7.3 **Methodology for allocation of indirect costs**

Council will allocate all identified indirect costs per 7.2 above on a proportional basis across each function identified in 7.1 above based on budgeted expenditure for each function as a percentage (%) of total budgeted operating expenditure.

For example:

- Total budgeted operating expenditure - $40,000,000
- Total budgeted operating expenditure for Community Support - $3,000,000
- % allocation for Community Support – 7.50%

The calculation for cost allocation is:

$$\text{Total indirect costs} \times \frac{\text{Total budgeted operating expenditure for function}}{\text{Total budgeted operating expenditure}}$$

Resulting in the total cost of the function being total Direct Costs plus allocated Indirect Costs.

7.4 Frequency

Full cost attribution will be processed in the general ledger at least annually prior to producing the annual financial statements. Management may choose to process full cost attribution journals more regularly to aid reporting if deemed appropriate.

7.5 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. As such, the attribution of costs is not required other than in relation to notes and disclosures within the annual financial statements reporting on functions, activities, goods and services. These disclosures are to be prepared using full cost attribution.

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

Financial and operational performance reports and budgets prepared for internal management are excluded from external financial reporting requirements and may either apply or not apply full cost attribution at management's discretion, giving regard to the purpose and use of the report.

8. Training/Education

Relevant staff will be adequately trained and qualified to implement and comply with this policy.

9. Review & Evaluation

This Policy will be reviewed:

- every four years; or
- the frequency dictated in legislation; or
- earlier in the event of changes to legislation or related Policies and Procedures; or
- if deemed necessary by the Manager Financial Services.

10. Availability of Policy

This Policy will be available for inspection at Council's principal office during ordinary business hours and on the Council's website www.renmarkparinga.sa.gov.au. Copies will also be provided to interested members of the community upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

11. Document Control

Version	Approval Date	Approved by	Amendments
1.0	06 June 2024	Audit & Risk Committee Resolution ARC2024-17	n/a
1.0	23 July 2024	Ordinary Council Meeting Resolution OC2024-116	n/a