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Applicable Legislation:	*Local Government Act 1999* *Local Government (Financial Management) Regulations 2011* *Accounting Standards* *Accounting Regulations*
Relevant Policies:	*Asset Accounting, Asset Management, Internal Financial Control*
Related Procedures:	*(According to above relevant policies)*
Delegations:	*General Manager Corporate and Community Services*

1. Purpose

The purpose of this policy is to provide a framework for Council Staff 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.

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. Definitions

Term/Acronym	Definition
Attribution	The assignment of apportioned costs to other departments.

Term/Acronym	Definition
Direct cost	A cost that can be assigned to a particular good, service, function or activity and 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 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, and record keeping.

4. Principles

Accounting Standards - 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 contained in financial statement or external financial reports.

Legislative Definition - 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)."

True Cost - 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.

Reliable and Consistent Basis - 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

5. Policy Statement

Application

This policy describes the methodology for how council will apply full cost attribution to financial transactions for the purpose of reporting a function, activity, good or service in financial statements or internal/external financial reports.

Roles and Responsibilities

The following roles and responsibilities will be attributed to this policy:

- Council – are responsible for adopting the budget for full cost attribution and approving this policy.
- Audit and Risk Committee – are responsible for reviewing and considering the impact on the financial statements of this policy, along with recommending this policy to council for adoption.
- Chief Executive Officer – is responsible for resourcing the implementation of this policy.
- General Manager - is responsible for overseeing the application of this policy within budget constraints.
- Finance Manager - is responsible for the application of this policy within budget constraints.
- Employees – are responsible for adhering to this policy.

Costs to be allocated

In determining the true cost of a service, an appropriate portion of indirect costs shall be allocated to the core services of council. 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.

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

Costs to be allocated to determine the true cost of a service

The following are a list of functions containing councils indirect costs which are to be apportioned in determining the true cost of a service -

Functions relating to Governance of Council being:

- Work Health and Safety and Risk Management – risk management, work health and safety expenses, training and meetings, administration and other expenditure.
- Governance - elected member support, administration, public relations and strategic planning.

Functions relating to Corporate Services being:

- Financial Management – audit costs, financial management costs, audit and risk committee costs and internal controls.
- Information Technology – maintenance and support, software and licencing, servers and storage, hardware, communication and IT strategy.
- Other Support Activities – records, customer services, rates administration, payroll, human resources, corporate vehicle expenses, insurances and bank fees.

Core services of council (functions)

The following are a list of core services (functions) of council to which a proportion of indirect costs will be applied to determine the true cost of a service:

- Community services – libraries, swimming centres, community events and organisations, recreation centres, visitor information centre, tourism economic development, disability access and inclusion, community facilitator, public strategies and other community amenities.
- Environment and Regulatory services – dog and cat management, fire protection, general inspection services, nuisance and litter enforcement, public order and safety, pest control, parking control, health services, health inspections, mosquito/wasp control, effluent/wastewater management, property and hall management, cemeteries, public conveniences, town planning and natural resources and environment management.

- Infrastructure services – Cemeteries, waste management, street cleaning, public lighting, foreshore protection, parks and gardens, sport and recreation, road maintenance, stormwater drainage, plant operations, depot and overhead expenses, vandalism, private works and asset maintenance.

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 and Regulatory Services and Infrastructure Services

Frequency
Full cost attribution will be processed in the general ledger at least on a quarterly basis prior to any budget review and the preparation of financial statements. Management may choose to process full cost attribution more regularly to aid reporting if deemed appropriate.

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.

Proportional allocation
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 budgeted operating expenditure - $15,000,000
Total budgeted operating expenditure for the Dog Control function - $98,000
Therefore % of total expenditure for Dog Control – 0.65%

Application
Council assigns operating costs from its Governance and Corporate Services functions in the following way - indirect costs are assigned to all operating functions relating to the Community Services, Environmental and Regulatory Services and Infrastructure Services departments on a proportional basis across each function as described above. Council will allocate all identified indirect costs on a proportional basis across each core service of council (function) as a percentage of total budgeted operating expenditure.

The calculation is:

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

Using the example for Dog Control above, the calculation would be:

$$\frac{98{,}000}{15{,}000{,}000} \times \text{indirect costs or, as calculated above, } 0.65\% \times \text{indirect costs}$$

The indirect costs are then added to the direct costs of the function, resulting in the total cost of the function being total direct costs plus allocated indirect costs.

Capitalisation

The Full Cost Attribution is a policy designed to determine the total cost of a service. The cost of capitalisation is governed by compliance with accounting standards AASB 116 Property, Plant and Equipment. Costs that can be capitalised are those costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. This does not include administration costs and other general overhead costs.

Payroll costs for administrative staff may only be capitalised if evidence of a direct link to the capital project can be ascertained.

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 2011, Part 3 (11))

Notes and disclosures within the annual financial statements reporting on functions, activities, goods and services need to be prepared using full cost attribution.

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.

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