

Activity Based Costing for a Strategic Costing Framework in Government

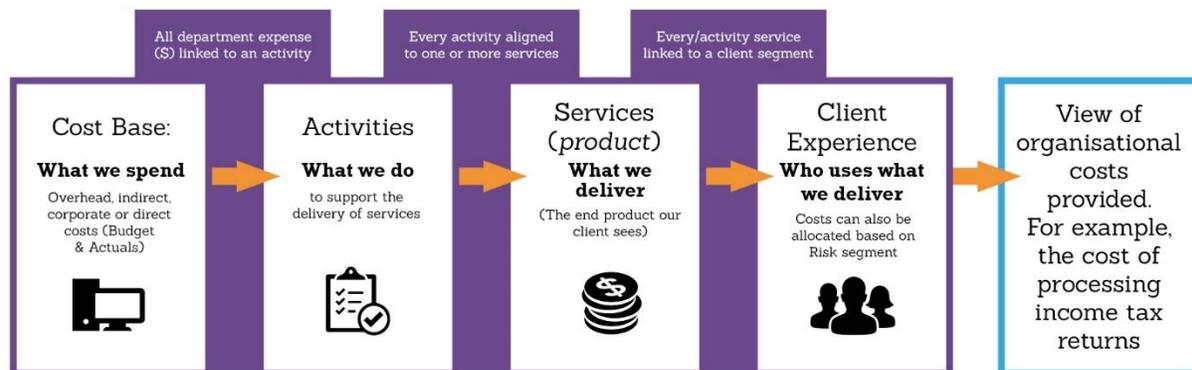
Many government agencies in Australia are now looking at a Strategic Costing Framework and how they can determine the full cost of their programs, deliverables and activities. Government agencies are under pressure to complete a whole range of external reporting requirements especially over the last few years, particularly with the introduction of the Public Governance, Performance & Accountability (PGPA) Act and the Shared Services and Contestability Framework. Government Finance departments now seek to produce financial information which can better support budget setting and planning, and strategic investment decision making.

The Activity Based Costing Methodology is increasingly being seen as the answer to these requirements within government, as it provides the ability to deliver:

- A best practice methodology already established within government agencies
- Versatility in either being a small stand-alone model or part of a cascade model between multiple ABC models
- Higher visibility of costs and cost drivers allowing business managers to separately identify the costs associated with the provision of services and activities within their business areas to the cost centre level
- More accurate and transparent allocation of overhead costs

ABC models accumulate overheads and direct costs for each organisational activity, and then allocate the costs of these activities to products, services or customers according to the actual consumption by each. For public sector organisations, costs are allocated to services as distinct from products and it is the public or other government agencies that use services instead of paying customers.

Activity Based Costing



Cost Base is typically extracted from the GL 'accounting view of the organisation' and contains the costs that are centrally managed and support the business.

An Activity is 'what we do'. It describes the activities that are undertaken by your work area on a day-to-day basis. This can be described as an internal view of an organisation.

A Service is a product that a service organisation provides to a customer. This can be described as the customer's view of an organisation.

A Customer is a consumer of business services. Customers may be internal (i.e. a business area that consumes ICT or corporate services), or external (clients).

The following is the movement of data between each phase:

- a. The first allocation will be from cost base to activities,
- b. the second from activities to business services, and
- c. the third from business services to client experience.

There are also important considerations of allowing users to be able to adjust the allocation splits and to add to the Activity and Service catalogues as required. Ideally, volumes are imported from other systems, however, it might not always be possible and users may need to enter or edit them.

To learn more how IBM Planning Analytics offers the best solution for ABC/M projects, please download our next whitepaper: "Activity Based Costing Powered by IBM Planning Analytics".

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