

Activity Based Costing for a Strategic Costing Framework in Government

Enabling “more for less” initiatives with fact-based decision making.

Australia’s current economic climate demands that government agencies improve the consistency, transparency and accountability in funding cost recovery arrangements to promote the efficient allocation of resources.

Agencies are also required to complete an increasing array of external reporting requirements, particularly so 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, as well as strategic investment decision making.



As the pressure to make better decisions and use resources more efficiently has increased, many Australian government agencies have started looking at a Strategic Costing Framework in order to determine the full cost of their programs, deliverables, and activities.

The Activity Based Costing Methodology is an effective answer to these requirements providing valuable information that can be used to make a broad range of decisions, from outsourcing to operational planning and budgeting, delivering:

- Higher visibility of costs and cost drivers allowing business managers to identify the costs associated with the provision of services and activities within their business areas to the cost center level.
- A more accurate and transparent allocation of overhead costs.
- Efficiencies right across the organisation by providing visibility of true costs of services tracked over time.
- The ability to conduct variance reporting of actual costs versus forecasted costs.

Unlike traditional cost allocation methodologies, ABC methodology measures a programs real cost and performance from the perspective of the resources consumed in delivering that program, addressing the key issues of:

- Understanding the real and complete cost of output delivery.
- Seeking funding commensurate with actual cost of delivery.
- Continuous system and business process improvement as a way of reducing costs and improving service delivery performance.

Activity

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

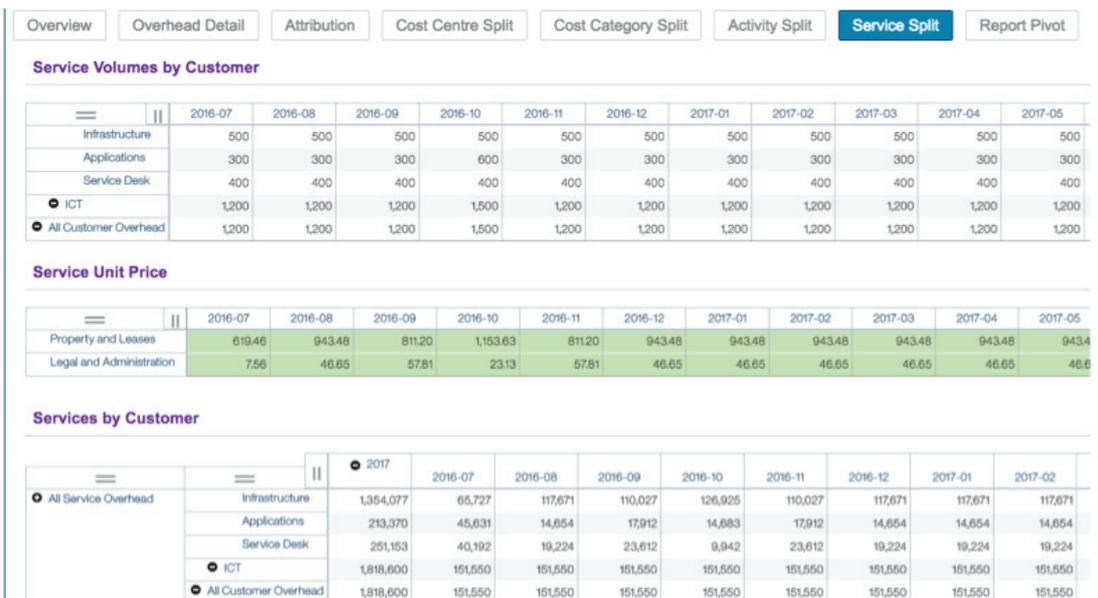
Every organisation will have a mix of direct and indirect activities - indirect activities being the enablers of direct activities. In order to get the full cost against the direct activities a sub step in the phase is to wash the indirect activities over the direct activities.



Service

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. The purpose of this phase is to get a unit cost per service based on the total volume or metric of the service provided.



Client

A Client is a consumer of business services. Clients may be internal (i.e. a business area that consumes ICT or corporate services) or external (customers).

Costs are allocated to clients based on their consumption of the volume or metric.

The Tridant Activity Based Costing Model

Tridant uses a proven methodology that delivers effective and reliable costing models that can be integrated with existing corporate and management reporting systems.

The Tridant Activity Based Costing model provides government departments and agencies with an efficient means of developing a comprehensive view of their true costs and expenditures as they relate to the provisioning of services, programs and activities.

The Tridant ABC model is simple to implement and provides agencies with a host of benefits including the ability to:

- Leverage a best practice methodology already established within government agencies
- Be versatile in either being a small stand-alone model or part of a cascade model between multiple ABC models
- Allow Cost Centre owners to manage and allocate their costs

Conclusion

Based on providing fact based data, ABC models allow government agencies to develop valid economic models that assist their executives to make value-creating decisions and take actions to improve their productivity and resource use - and ultimately to better serve their constituents.

With Activity Based Costing driving decision making, agencies are better able to respond to the increasing pressured placed upon them quick and efficiently.

To learn more how IBM Planning Analytics and Tridant's Activity Based Costing approach offers the best solution for ABC/M project please download our next whitepaper "Activity Based Costing Powered by IBM Planning Analytics".

About Tridant

Tridant is a specialist Information Technology firm focused on providing technology consulting services and the design and implementation of technology solutions optimised for planning, reporting & analytics, customer experience serving Public, Private and Government organisations throughout Australia and Singapore.

We help our customers leverage their data assets to improve profitability, increase revenue, reduce risk and make their businesses more responsive to customer expectations and market dynamics.

Our solutions are tightly integrated with key business processes and source systems, which help our customers to make the most of their investments in data, technology and people.

To learn how IBM Planning Analytics and Tridant's Activity Based Costing approach offers an effective solution for ABC/M projects please download our "Activity Based Costing Powered by IBM Planning Analytics" whitepaper or contact Tridant on 1300 737 141.

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data driving decision making