

Title: Allocation Of Corporate Administrative Costs
Policy No: 12
Responsibility: Director Corporate Services

Version	Decision Number	Decision Date	History
1	18\6245	27/01/04	Adopted
2	19\4604	12/06/07	Reviewed
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Introduction

Since July 2002, the Darwin City Council has been required by legislation to comply with the provisions of the Local Government Accounting Code as they relate to Section 6.4 – Allocation of Direct and Overhead Costs to Functions.

In part Section 6.4 states

“Overheads are costs of the administrative function, which are not charged directly to activities providing those services though they are necessary for those services to be provided. The cost of overheads must be apportioned to individual activities using a reliable basis.”

Overheads are a component of the full cost (true cost) of providing services. The allocation of overheads enhances awareness of the cost of the administrative infrastructure. The determination of a reliable basis for allocating overheads is a management responsibility and hence an internal matter for council.

Act

Local Government Act
 Local Government (Accounting Regulations)
 Local Government Accounting Code - Section 6.4

Purpose of Policy

This policy sets out the basis for the allocation of corporate administration costs to programs and functions

Definitions

- **Direct Costs**
 - Direct Costs are those costs that can be clearly and specifically identified with particular activities and can be attributed to them on a determined basis.
- **Indirect/Overhead Costs**

- Indirect/Overhead Costs are those costs which, while they cannot be specifically identified with particular activities, can be allocated to activities on some reliable basis.

Accounting Policy

- Administrative Costs Program Structure
 - The following programs will identify all administrative overhead service programs that should on a reliable basis be allocated to operating programs.
 - Financial Management and Accounting
 - Employment Overhead Recoveries
 - Procurement
 - Revenue
 - Customer Service
 - Human Resources Management
 - Risk Management
 - Information Technology Support
 - Central Records
 - Building Maintenance
 - Public Relations
 - Corporate Administration
 - Asset Management
 - Fleet Management

- Basis Of Allocation
 - The following basis should be adopted for the allocation of each administrative program

Financial Accounting	- No of General Ledger Transactions
Overhead Recoveries	- Allocated through Salary Overheads
Procurement	- No of purchase orders created
Revenue	- Split between rates and sundry debtors
	Rates – not allocated
	Sundry Debtors – No of debtors
Customer Service	- No of FTE's
Human Resources	- No of FTE's
Risk Management	- Claims History
Information Technology	- No of PC's
Central Records	- Mail records (Dataworks)
Building Maintenance	- Direct for individual buildings
	- Civic Centre – Floor space
	- Depot – Technical Services % split
Public Relations	- All governance – not allocated
Corporate Administration	- % split provided by each director
	- % allocated to governance
Asset Management	- Value of assets
Fleet Management	- Allocated through fleet hire rates

- Method of Apportionment

- A Two Step Direct Method be employed to allocate the administrative charges.
 - Step 1 – Allocate the administrative charges (with the exception of building maintenance) to all administrative programs on the above basis.
 - Step 2 – Reallocate the costs that have been allocated to the administrative programs to the operating programs
The “Allocation of Administrative Costs Model” should be utilised for this purpose.

All Building Maintenance costs should be collected in one program under the responsibility of the Building Services Manager. These costs will be allocated to programs directly when they can be done so. Costs associated with the Civic Centre will be distributed according to the floor space occupied by each department. Costs associated with the Depot will be allocated to Technical Services Departments on the basis of direct expenditure. Costs allocated to service departments will be reallocated to operating programs in accordance with the two step method outlined above. The “Allocation of Building Maintenance Costs Model” should be utilised for this purpose.

- Accounting for Allocated Costs

- Allocated costs should be accounted for internally and form part of the costs of delivery of each program. Each program should have accounts allocated to it to take the costs of administrative overheads charged to each program.
- The following accounts will be allocated to each program:
 - Finance Administrative Overheads Allocated
 - Procurement Administrative Overheads Allocated
 - Customer Service Administrative Overheads Allocated
 - HR Management Administrative Overheads Allocated
 - Risk Management Administrative Overheads Allocated
 - IT Support Administrative Overheads Allocated
 - Central Records Administrative overheads Allocated
 - Corporate Administration Administrative Overheads Allocated
 - Building Maintenance Costs Allocated
- The following income accounts will be allocated to service programs
 - Finance Administrative Overheads Recovered
 - Procurement Administrative Overheads Recovered
 - Customer Service Administrative Overheads Recovered
 - HR Management Administrative Overheads Recovered
 - Risk Management Administrative Overheads Recovered
 - IT Support Administrative Overheads Recovered
 - Central Records Administrative Overheads Recovered
 - Corporate Administration Administrative Overheads Recovered

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- The total costs to be allocated to each program will be budgeted in twelve equal instalments. Standing journals will be set up to allocate one-twelfth each month to match the budget. Only the budgeted allocations will be transferred to programs, not actual expenditures. Therefore whilst the allocated costs will be charged to individual programs, no variation to budget will occur as a result of the allocation of administrative overheads. Any variation to budget for administrative costs will occur in the administrative program and will need to be reported upon by the manager responsible for that program.
 - Reporting of Administrative Overheads
 - External Reports and Internal Management Reports should be consistent in that reports by program should always include the administrative overhead costs allocated to each program.
 - Application of Policy
 - This policy shall apply from the commencement of the 2004/05 financial year.