

methodology costing

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for local government guideline



Compiled by
CHIEF DIRECTORATE
LOCAL GOVERNMENT BUDGET ANALYSIS



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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REPUBLIC OF SOUTH AFRICA

FOREWORD

Tariff setting for improved Service Delivery!

I am pleased to release the Costing Methodology Guideline for Local Government as a tool to support municipalities across South Africa. This guideline serves to promote effective public financial management which will inevitably enable us to significantly improve the lives of our citizens and to furthermore entrench good financial and institutional governance within our respective municipalities.

For Local Government to remain at the forefront of effective service delivery, we must ensure that we become pre-emptive in our thinking and pro-active in the implementation and management of policies and guidelines. Therefore the focus and alignment with legislation governing Municipalities, e.g. the Constitution, Municipal Systems Act, Municipal Finance Management Act, Municipal Structures Act, etc. are essential in establishing an effective costing and tariff-setting methodology. As the National Treasury, we are mindful of the assessments and findings of the Auditor-General of South Africa (AGSA). Therefore municipalities should place high emphasis on exercising tighter control over their financial affairs.

The need for a costing methodology guideline comes at an appropriate time when municipalities are required to review the efficiency and effectiveness of their costing methodology and tariff-setting. The demands of citizens are continuous and so are the expectations of sound service delivery. It is therefore appropriate to introduce a basic guideline of fixed costing methodologies to ensure that each municipality has, at the least, a framework within which to operate. Subsequent phases will gear towards efficiencies in the costing methodologies and towards marginal and variable costing methods. The guideline has been prepared to give effect to the costing segment which forms part of the Municipal Regulations on the Standard Chart of Accounts (*mSCOA*).

The National Treasury expresses its deepest appreciation to those who assisted in the planning and production of this guideline.



Lungisa Fuzile

Director-General: National Treasury

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1. INTRODUCTION

1.1 THE PURPOSE OF THE GUIDELINE

The purpose of the Guideline is to respond to the demand by local government practitioners for guidance and tools to identify what it costs to produce services for their customers. The Guideline is informed by the outcome of a pilot study that was undertaken. It addresses a gap in the sector to produce consistent data on the cost of rendering a trade service. It also provides the ability to benchmark a service against other municipalities with a certain degree of confidence.

This process will assist practitioners to improve their understanding of the principles and techniques of cost allocation, to support a consistent approach across municipalities, functions and projects, and so allow for cost comparisons and benchmarking.

The process will also assist municipalities to better understand their costs and the factors that have the greatest influence on these costs (i.e. the cost drivers). The Guideline will help to:

- Improve the understanding of the fundamentals of costing principles and concepts
- Provide a basis for implementing full cost recovery on tariff services
- Provide a common cost allocation framework
- Improve the understanding and application of the techniques of cost allocation
- Determine the full cost of tariff services provided by municipalities, and assist with resource allocation for a particular service
- Ensure that costs are transparent, efficient and consistent
- Plan to recover the full cost of tariff services (cost-reflective tariffs)
- Support a consistent approach across municipalities and so allow for cost comparisons and benchmarking.

The Guideline has a strategic rather than an overly prescriptive approach, and should be regarded as an illustrative guide to the factors that should be taken into account when undertaking a costing exercise, as no single costing methodology can be applied universally. Whether municipalities use sophisticated costing software or a spreadsheet is not important, the choice will depend on what is feasible and cost effective. The rationale and concepts explained in this Guideline anticipate the establishment of a shared understanding among the various role-players involved.



The purpose of the Guideline is to respond to the demand by local government practitioners for guidance and tools for identifying what it costs to produce services for their customers. The Guideline is informed by the outcome of a pilot study that was undertaken.

1.2 BACKGROUND

The annual municipal budget benchmarking engagements that are conducted by the National and Provincial Treasuries found that most of these municipalities are struggling to achieve financial sustainability.

The findings of these engagements include that municipalities are not applying sound budget principles, that service charges (tariffs) are not informed by costing methodologies or basic cost recovery principles, and that there rarely is a correlation between the annual tariffs for basic services (water, electricity, sanitation and waste management) and the cost of providing such services. Tariffs are typically based on the direct cost of rendering the service and are mostly adjusted incrementally. However, as systems deteriorate and maintenance costs increase, municipalities are realising that historical costs no longer serve as a reliable guide for budgeting. As a result, the gap between what should be spent on a service and what is being spent continues to widen for most municipalities.

Planning to recover the full cost of these services (cost-reflective tariffs) will ensure sufficient funding to sustain them. However as systems age inadequate cost recovery and rising renewal costs lead to insufficient investment in capital renewal. Ultimately such insufficient re-investment leads to deferred maintenance, eventually leading to a decline or total collapse of services. Furthermore, when tariffs for a service are not cost reflective, the result is services being cross-subsidised by other services or property rates. This is poor practice, as in many cases high-end users of services are then being subsidised by other consumers.

It was also found that although some of these municipalities had a high collection rate, it was not reflected in their *cash position*, which could only be attributed to having non-cost-reflective tariffs.

In addition, municipalities are placed under significant pressure, inter alia in the media, where the tariff structures of one municipality are compared to those of others. The result is that citizens are increasingly questioning the way in which municipalities determine the price of their services. In most cases it is difficult for municipalities to answer these questions, as they do not apply any costing methodologies and therefore do not know the associated costs of providing such services – which draws into question the transparency of tariff determination.



National Treasury's budget benchmarking engagements with the 17 non-delegated municipalities found that these municipalities are struggling to achieve financial sustainability.

2. WHAT IS FULL COST RECOVERY?



Full cost recovery is therefore the process of gathering and reporting information about the true cost (direct plus indirect costs) of providing a service by tracking and accumulating the total cost of the process to provide the service.

Full cost recovery is a methodology that all municipalities should apply to ensure that all costs needed to render a tariff service are recovered. At present, however, most municipal tariff services do not include all the costs of rendering a service, and by implication are thus being funded from property rates. This is not an ideal situation, as a surplus should be generated to re-invest in the service and so ensure its sustainability.

Full cost recovery is therefore the process of gathering and reporting information about the true cost (direct plus indirect costs) of providing a service by tracking and accumulating the total cost of the process to provide the service. Although it is crucial that all costs should be recovered through the tariff structure, there will nevertheless be situations where it may be necessary to recover less than the full cost. The basis of under-recovery of the full cost can be justified through policy, for example where support is provided to indigent people and in terms of affordability considerations.

However, it is imperative that the full cost of rendering a particular service is known so that tariff decisions are taken with full knowledge of the cross-subsidy that will be required and provided from other revenue sources. Furthermore, no decisions in terms of infrastructure investments or levels of service can be taken if the full cost of rendering a service is not known.

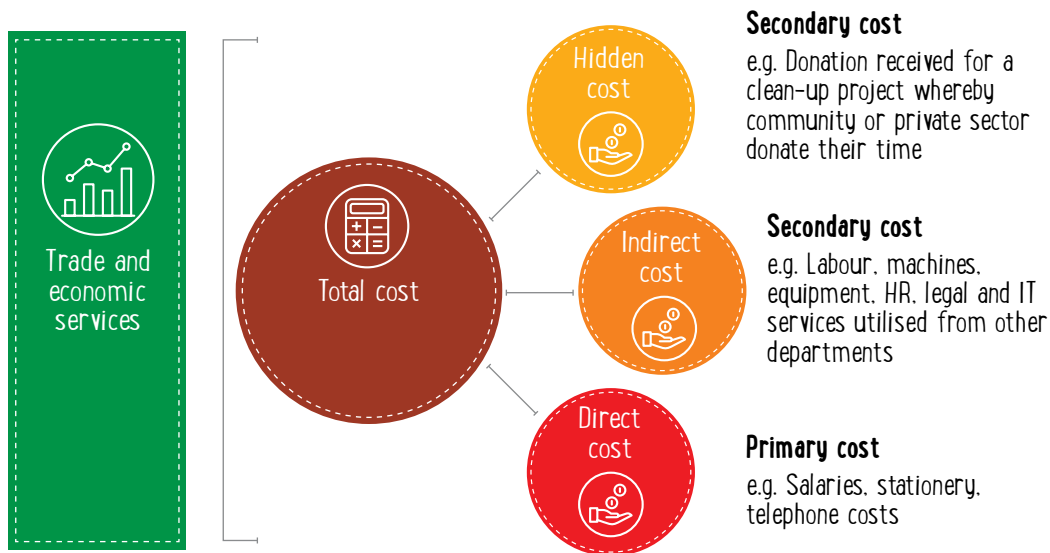
Full cost recovery of a tariff service is an important strategy to provide financial stability, as it ensures sufficient and stable financing for the service into the future and is a key indicator of the financial health and overall performance of that particular service. Municipalities not recovering the full cost of a service often experience financial difficulties leading to inefficient operations that often result in poor levels of service, low collection rates, abuse of scarce resources, limited investment in the service and ultimately high distribution losses of scarce resources such as water. Municipalities that apply full cost recovery are in general very efficient and provide a high level of service, contributing to customer satisfaction and thereby encouraging payment for services, resulting in investment for replacement and expansion of services.

By adopting a full cost recovery methodology, municipalities will have a better understanding of the principles and techniques of cost allocation, and will be able to benchmark their costs against those of municipalities of a similar size.

The primary rationale behind cost accounting is that activities consume cost. The knowledge gained by understanding the cost of these activities is a tool that can assist a municipality to become more economical and efficient, and ultimately sustainable over the long term.

It should be emphasised that the costing methodology forms an integral part of the budgeting process. Currently most municipalities in South Africa use job costing as a methodology of tracking their costs. This predominantly fits the needs of the engineering services, and does not act as a support tool for decision-making, as it only tracks costs as they are incurred and does not inform the budget process, resulting in tariffs not being cost reflective.

FIGURE 1: ELEMENTS OF ACCOUNTING FOR COSTS



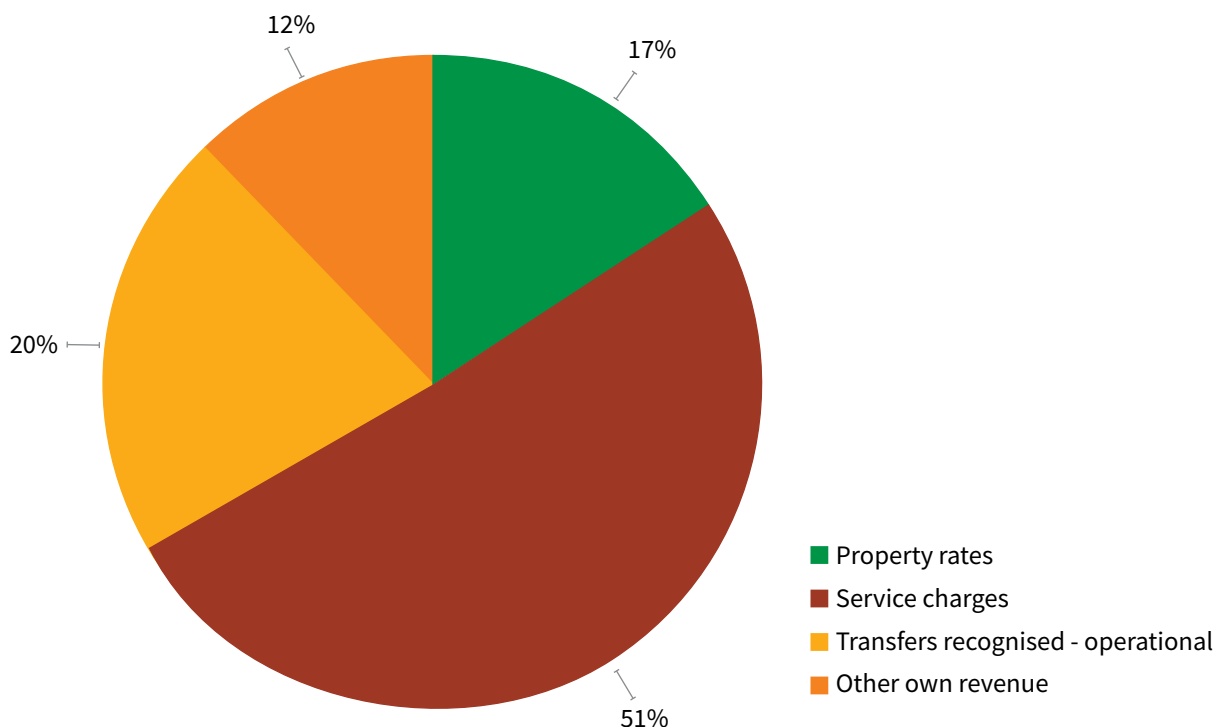
3. WHERE IS COST ACCOUNTING TO BE APPLIED?



Cost accounting will initially be applied to the four core municipal functions – electricity, water, waste water and waste management services.

Cost accounting will initially be applied to the four core municipal functions – electricity, water, waste water and waste management services. Focusing on these functions is essential for setting cost-reflective tariffs for the most significant revenue-generating functions. Collectively, these functions generate around R134.8 billion for South African municipalities annually, or an average of 51 per cent of all council revenues. As depicted in Figure 2, the un-audited 2014/15 municipal operating revenue figures indicate that service charges were the most significant source of revenue, followed by grants, rates and other charges. Service charges and the calculation thereof are important to consumers and investors. If service charge revenues do not keep pace with increases in the cost of service provision, or if fees are set to only partially recover costs, the cost burden can ultimately revert back to the ratepayer, whereby property rates are utilised to cross-subsidise tariff services. If tariffs are set in such a manner that the full cost is recovered, the consumer can use the tariff to benchmark the efficiency of the municipality in providing the service. It also creates a user satisfaction or expectation that service standards are in line with the appropriate norms and standards, and that the municipality is managing its service delivery costs effectively.

FIGURE 2: 2014/15 MUNICIPAL OPERATING REVENUE (UN-AUDITED)



3.1 BENEFITS OF IMPLEMENTING COST ACCOUNTING (COST-REFLECTIVE TARIFFS)

The most important advantage of implementing cost accounting is that it provides accurate and complete information on the real cost of managing a tariff service. All secondary costs can be identified and allocated to the relevant service, ensuring that those who are using the services are paying the full cost of the service.

Once the full cost of each service has been calculated, municipal managers will have a better understanding of their costs and will be able to predict future costs more precisely. They will also be able to make informed decisions about potential cost savings, as well as the types and levels of services provided.

Implementing cost accounting will ensure that tariff services are adequately funded over the long term, resulting in an efficient, sustainable and reliable service.

In addition to the general advantages that come with understanding costs and cost drivers, full cost recovery provides the following benefits to municipalities:

- Being able to set fees and charges for services
- Ensures the sustainability of services
- Promotes efficiency and cost effectiveness in services
- Assists in decision-making around level of service (increasing or decreasing)
- Promotes allocation of internal resources, ensuring that available resources are utilised optimally, and duplication of services can be identified
- Helps to maintain and improve services
- Managers can drive improvement measures based on an understanding of their costs and the impact on operational costs
- Ensures transparency to its customers
- Ensures correct pricing of services (and will result in consumers not abusing scarce resources)
- Indicates the subsidisation between different type of consumers or different services
- Will facilitate benchmarking (comparing costs) between municipalities, identify causes for cost differences, revise and improve business processes and allow municipalities to learn from one another as how best to perform certain activities
- Ensures accountability – business units which re-charge costs to other projects and/or services will have to motivate the increase in costs as well as the basis of re-charging costs.
- Business units receiving charges must evaluate the level of services being received as well as the cost being charged for the service.



Implementing cost accounting will ensure that tariff services are adequately funded over the long term, resulting in an efficient, sustainable and reliable service.



Should a tariff service not recover the full cost of rendering such a service, the municipality will not be able to finance network expansions, or properly maintain existing infrastructure.

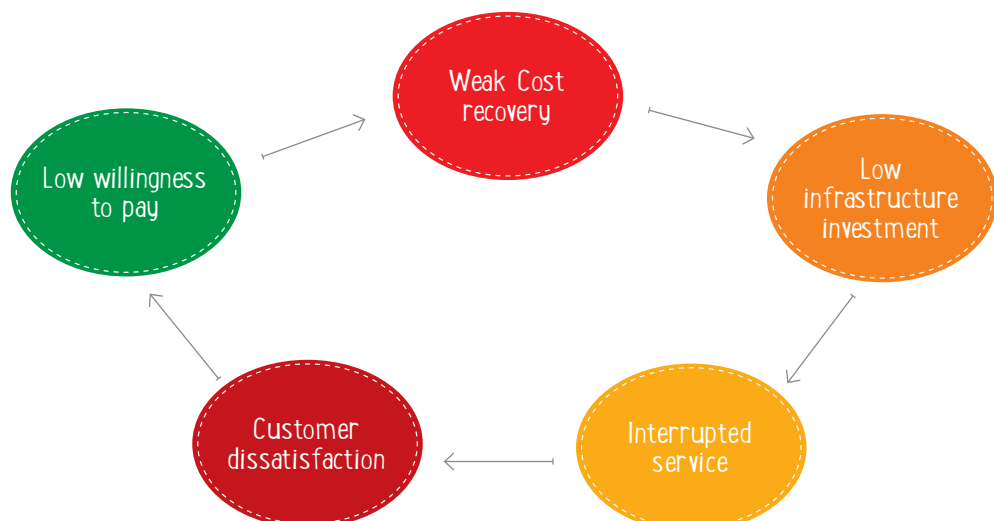
3.2 RISKS OF NOT IMPLEMENTING COST RECOVERY

Should a tariff service not recover the full cost of rendering such a service, the municipality will not be able to finance network expansions, or properly maintain existing infrastructure. This will ultimately result in low service levels, which in turn will have a negative effect on the willingness of customers to pay. In essence, low levels of cost recovery from the user will result in insufficient income for the effective and efficient operation and management of the service. This implies that the municipality will not be in a position to further invest in the service, which exacerbates the problem even further and can result in a possible loss of scarce resources such as water if the infrastructure is not maintained properly.

The following summarises some additional risks of not implementing full cost recovery of a service:

- Potential for cross-subsidisation from property rates or other services
- A widening gap between full cost and current expenditure will result in huge tariff increases when rectified
- No transparency around tariff determination
- An increase in emergency repairs against scheduled or preventative maintenance
- An increased risk of more service outages, as preventative maintenance is not being done, with the accompanying inconvenience for customers and loss of revenue for the municipality
- A steady degradation of system infrastructure, resulting in a reduction of service level standards.
- Reduced ability to attract new business
- Can result in higher insurance costs
- A lower credit rating and higher lending costs.

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FIGURE 3: THE RISKS OF NOT IMPLEMENTING COST RECOVERY



4. DETERMINING THE FULL COST OF A SERVICE

There are numerous theoretical costing methodologies that can be applied to determine the cost of a service. Each one has its own advantages and disadvantages, and it is highly unlikely that there will be one technique that will apply to all municipalities or to all services within a municipality.

National Treasury is of the view that where a municipality has the sophistication and the capacity to implement activity-based costing they may do so, but for those who do not have such capacity, traditional costing methodologies should be applied.

What is important to note is that a cost accounting methodology is used to identify and assign overheads as well as other indirect costs required to produce services. Costs are then determined for each service.

Cost accounting is intended to increase the accuracy of cost information by assigning overheads and other indirect costs to specific municipal services.

Cost accounting is more than just collecting cost data; it is also a tool that provides municipal managers with information that can be used to improve management decisions.

The manner in which activities are costed is very important, as inappropriate costing can distort decision-making.

If the costing of activities is incorrectly defined, this may lead to:

- Inappropriate allocation of internal resources
- Underfunding / overfunding of a service
- Inability to identify inefficiencies
- Inability to benchmark against other municipalities.

A cost objective is an activity for which a separate measurement of cost is desired and all resources consumed to produce that activity forms part of the total cost of the activity.

Costs assigned to cost objectives can be classified as either direct or indirect costs.

4.1 DIRECT COSTS (PRIMARY COSTS)

A direct cost is one that can be specifically related to a particular service, function or activity based on actual consumption; in other words it is directly related to the cost objective. In order to improve the accuracy of costing a service, it is essential to assign as many direct costs as necessary for full cost recovery to the service. This will improve the accuracy and relevance of total cost by reducing arbitrary cost allocations.



A direct cost is one that can be specifically related to a particular service, function or activity based on actual consumption; in other words it is directly related to the cost objective.

The following list, although not complete, includes examples of direct costs:

- Salaries
- Stationery
- Telephone costs
- Materials
- Consultant fees
- Bulk purchases
- Debt impairment
- Depreciation
- Interest - external borrowing
- Contribution to reserves
- Fuel
- Training
- Insurance
- Office rental
- Printing
- Legal fees
- Conference fees
- Traveling and subsistence
- Plant hire
- Vehicle hire
- Audit fees
- Marketing
- Security.

The above mentioned costs can only be categorised as direct costs if they are under the control and management of the head of department of the specific service. Care should be taken that costs such as debt impairment, depreciation, interest on external borrowing and contributions to reserves, which are often budgeted for in the Office of the CFO, are included under the relevant service.

Many municipalities do not provide for full cost recovery, and indirect costs are therefore ignored as a cost to render the service.



Indirect costs are those which are not directly attributable to the output, are often referred to as overheads and are normally incurred for multiple programmes or services. Indirect costs need to be assigned to the cost objective and are therefore less precise.

4.2 INDIRECT COSTS (SECONDARY COSTS)

Indirect costs are those which are not directly attributable to the output, are often referred to as overheads and are normally incurred for multiple programmes or services. Indirect costs need to be assigned to the cost objective and are therefore less precise.

However, the fact that indirect costs need to be assigned to the cost objective does not make them any less relevant. They frequently make a significant contribution to the full cost of an output and are often underestimated by the people who rely on them. These costs cannot be directly related to a particular service or project, yet without the support of these costs, most services would break down immediately. The method used to allocate indirect costs needs to be a rational and consistent method that approximates the proportional benefit derived from the activity.

The identification and inclusion of indirect costs will involve a trade-off between accuracy and the cost of producing the cost information. Care should be taken to avoid devoting resources to the allocation of trivial costs at the expense of the analysis of more significant costs.

A list of a few cost pools, together with their basis of calculation, is included in table 1.



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TABLE 1: EXAMPLES OF OVERHEAD COSTS AND THEIR BASIS OF CALCULATION

<i>Cost pool (overhead costs)</i>	<i>Allocation base (basis of calculation)</i>
IT services	Number of users
Office rental	Floor space occupied (square metres)
Cleaning services	Floor space occupied (square metres)
Asset management	Value of assets
Procurement services	Number of purchase orders
Meter reading	Number of meters for each service
HR services	Number of personnel

4.3 CURRENT APPROACH TO COSTING

At the highest level, the costing structure distinguishes between departmental charges (support services), internal billing and activity-based recoveries.

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TABLE 2: COSTING STRUCTURE – HIGH-LEVEL CLASSIFICATION

<i>High-level classification</i>	<i>Definition</i>
Departmental charges (support services)	This refers to the allocation of overheads from a cost pool used by multiple functions, such as Information Technology; for example, pro rata allocation based on the number of service points or users such as the electricity department. Some applications refer to assessment charges.
Internal billing	This refers to departmental use of internal services such as electricity, water, waste water management and waste management; for example, cost allocation for the electricity department’s water consumption.
Activity-based recoveries	This refers to the actual allocation of resources (usage or benefit method) used by various departments; for example, allocation of labour is based on time sheets, and the allocation of vehicles and plant equipment is based on log sheets.



The allocation of cost is a fundamental step in determining the full cost of service delivery. The full cost of a service is the total of all costs directly attributed to a service plus the indirect costs used to render the service.

5. COST ALLOCATION PLAN

The allocation of cost is a fundamental step in determining the full cost of service delivery. The full cost of a service is the total of all costs directly attributed to a service plus the indirect costs used to render the service. The purpose of a cost allocation plan is to identify all indirect support costs as maintained in the municipality's general ledger and to determine an equitable basis for allocating these costs.

A basic problem in calculating the cost of a service is that resources used to support an activity are also used to support several other activities. This problem is overcome by applying a cost allocation plan.

There are four basic elements in a cost allocation:

- Cost object – A department, programme or activity for which the full cost is being determined.
- Cost item – the resource that is allocated to a cost object. Typical items include labour, fuel, and property, plant and equipment.
- Cost pool – where cost items are accumulated before being allocated to cost objects. These cost pools sometimes mirror the organisational structure; in such cases each department or section is a separate cost pool.
- Cost allocation base – all items in a cost pool are allocated to the cost object using the same cost allocation base.

The allocation of these costs should be tailored to fit the specific policies of each municipality. These costs are then calculated and allocated to the relevant service departments.

In general the costs assigned can be summarised by the following equation:

$C = R \times Q$ where:

C - Represents the cost of a resource consumed

R - Equals the per unit cost of resource consumption

Q - Represents the quantity of the resource consumed.

The purpose of the cost allocation process is therefore to trace costs to outputs on the basis of resource consumption. This involves identifying the unit cost of resource consumption and the quantity of resources used for each service.

The following principles need to be considered when preparing the cost allocation plan:

- Cost allocation, by definition is an estimate
- One needs to strive for an equitable and reasonable means to allocate costs
- One needs to use real and current costs
- One needs to use allocation methods that reasonably link the cost to the level of service and/or benefit received.

5.1 COST ALLOCATION METHODS

The intention of cost allocation is to provide the most accurate allocation of costs possible to determine the full cost of rendering a service. Importantly, the cost of allocating such costs should never outweigh the benefits received, and secondly, the allocation should be performed in a manner that is consistent with the purpose of the cost analysis.

The following two methods of estimating the indirect costs associated with an activity may be considered:

- A 'usage' or 'benefit' approach
- A pro rata approach.

There are several matters to be considered for each method.

The 'usage' or 'benefit' method

The 'usage' or 'benefit' approach looks to build from the bottom up, starting with the activities themselves (for example, processing a service requirement) and calculating the resources they consume. Costs are then attributed to these activities, which in turn can be summed to calculate the cost to serve an end-to-end process.

This approach is concerned with measuring or estimating the actual usage of resources.

If costs are measurable, the 'usage' or 'benefit' method is the most accurate method available for presenting information about indirect costs.

Actual resource usage may be estimated in several ways. Examples of methods of apportioning an indirect cost pool are direct observation, time (in the case of indirect staff costs) and log sheets (in the case of vehicle and plant equipment). The method used must be well documented, verifiable and efficient. This type of indirect cost measurement can in practice be linked to an activity-based costing method, but it needs to be adjusted for practical reasons.

When collecting vehicle cost and setting charge out tariffs for vehicles it is important that the full amount of vehicle operating and maintenance costs are charged to each vehicle. The cost of the mechanical workshop (labour) staff, licensing, tyres, fuel, parts (including stores issues) insurance should be charged to each vehicle.

The next step of importance when preparing the vehicle budget and charge out tariffs for the vehicles is then to determine how the vehicle will be utilised during the year i.e. the expected kilometres that will be travelled for:



The allocation of cost is a fundamental step in determining the full cost of service delivery. The full cost of a service is the total of all costs directly attributed to a service plus the indirect costs used to render the service.



The 'usage' or 'benefit' approach looks to build from the bottom up, starting with the activities themselves (for example, processing a service requirement) and calculating the resources they consume.



This approach may be used where it is not possible or it is too costly to identify actual resource usage. The approach starts with the cost data as found in the municipality's general ledger.

- Maintenance Projects
- Capital Projects
- Admin (repairs and maintenance and other kms that cannot be linked to maintenance or capital). Unless each department prepare accurate estimates of the anticipated kms to be travelled for each purpose the charge out tariff for the vehicle will be incorrect and the allocation of the vehicle cost between maintenance and capital will be incorrect.

The same applies to the distribution of labour cost. There should be proper planning when the annual budget is prepared to determine which part of labour cost will be utilised for repairs and maintenance and which part for capital projects and the annual budget should be prepared accordingly. This allocation of vehicle and labour cost between maintenance and capital is important as the funding of the two is different and unless the components of vehicle and labour cost allocated to repairs and maintenance are calculated accurately during the budget process the annual budget and the tariff setting for that service will be incorrect.

The pro rata approach

This approach may be used where it is not possible or it is too costly to identify actual resource usage. The approach starts with the cost data as found in the municipality's general ledger. The costs are allocated on a proportionate allocation basis to outputs by using measures such as:

- Staff involved in the production of the output as a percentage of total staff
- Direct resource use in the production of the output as a percentage of total resource use
- The budget for the output as a percentage of the total budget.

The same type of pro rata allocation can be used for indirect cost pools of different types. A simple approach to allocating indirect costs is to group all the costs items into one cost pool and use a proportionate allocation basis similar to those outlined above. However, the more disaggregated the approach (that is, the greater the number of indirect cost pools used), the more likely it is that the pro-rata method will yield results similar to those achieved under the 'usage' or 'benefit' approach. Where the nature of the output's production process is reasonably straightforward, the pro rata approach may represent a reasonable allocation of indirect costs.

It is therefore essential that each municipality adopts a methodology that reflects as accurately as possible the circumstances in which its outputs are provided. The usage or benefit approach will always be the preferred method, as it will point out inefficiencies while the pro rata method will tend to hide such inefficiencies.

6. IMPLEMENTING FULL COST RECOVERY

Implementing a successful full cost recovery methodology for tariff services requires a team effort by all department heads and officials. All personnel involved in the study need to understand the purpose of the study as well as their role in it.

A prerequisite to any costing exercise is developing a clear description of the output or the process used for the production of goods and services. Without a clear definition, it is impossible to verify costs, compare alternatives or benchmark against similar services over time.

Municipalities need to understand the level (or standard) of service (Table 3) that is to be delivered, as well as the impact on sustainability in providing a service at that level. The higher the service level, the greater the impact on input costs, which ultimately results in higher tariffs for the consumer, which then impacts on affordability



Implementing a successful full cost recovery methodology for tariff services requires a team effort by all department heads and officials.

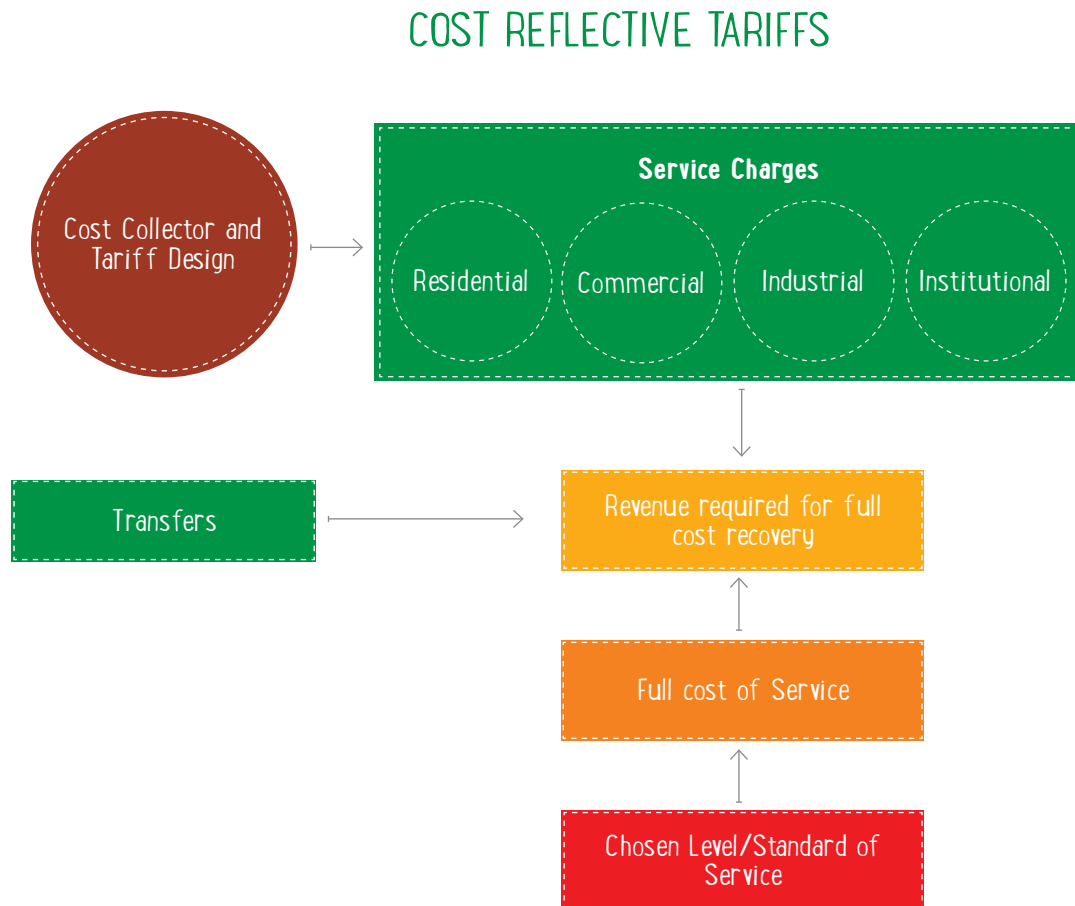
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TABLE 3: SERVICE LEVELS (STANDARDS)

<i>Service type</i>	<i>Level 1 basic</i>	<i>Level 2 intermediate</i>	<i>Level 3 full</i>
<i>Water</i>	Communal standpipe	Yard taps; yard tanks	In-house water
<i>Sanitation</i>	Sewerage collection / disposal	VIP latrines; septic tanks	Full water-borne
<i>Electricity</i>	5-8 Amps	20 Amps	60 Amps
<i>Solid waste</i>	Communal residential	Communal contractors	Kerbside

In addition to service levels (standards), the following issues also need to be considered when determining the full cost of a service:

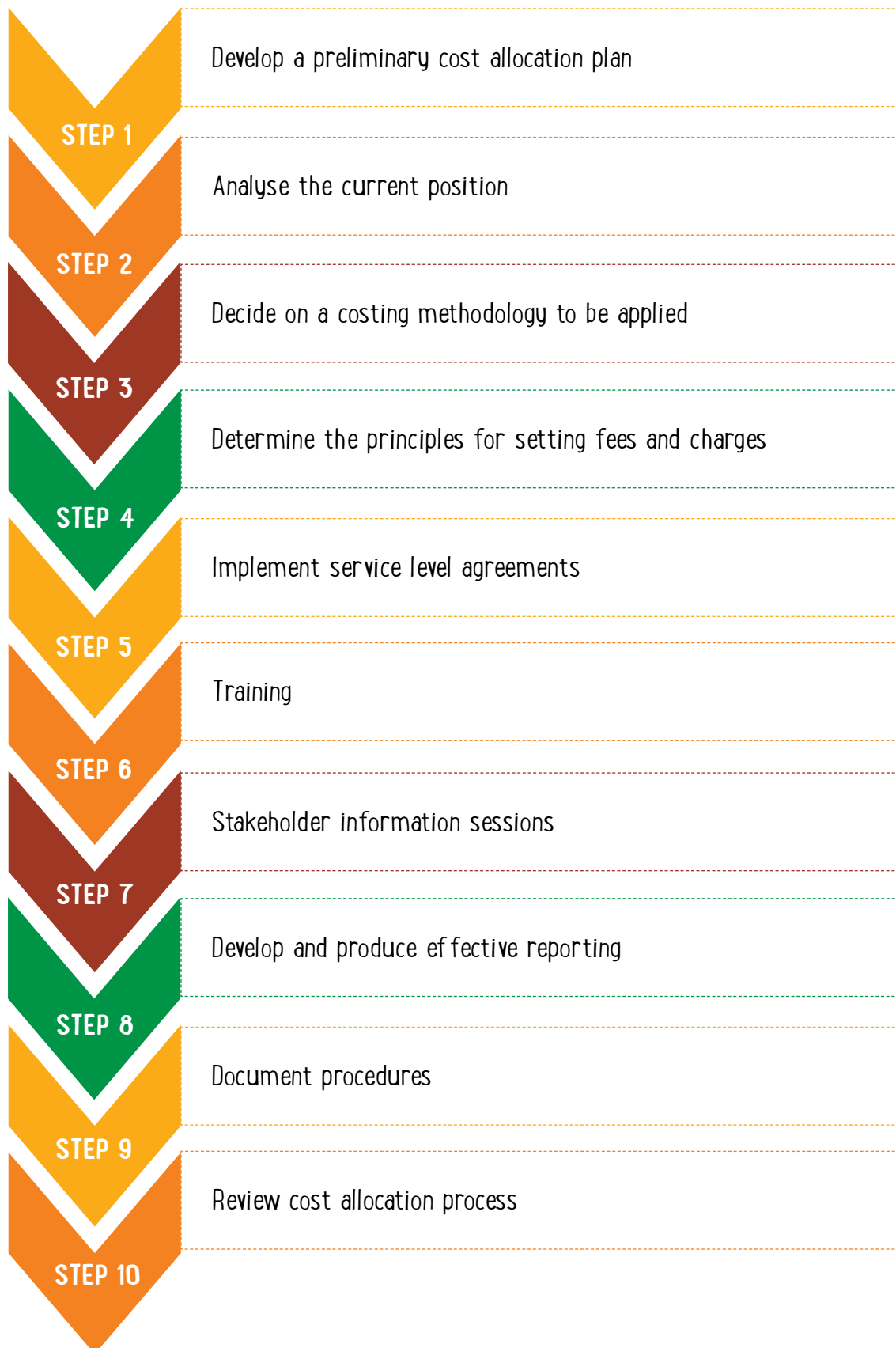
- Can the systems meet the required needs (is investment required?)
- Future infrastructure costs should be accounted for
- The number and duration of service interruptions per year should be taken into account (are repair and maintenance allocations sufficient?)
- What is the quality of service provided to customers
- How much time does it take to respond to outages
- What is the nature of the system’s environmental footprint (is it a ‘green’ system?).

FIGURE 4: RECOVERING THE FULL COST OF A SERVICE



There are a number of steps that municipalities need to follow to implement full cost recovery. The following checklist serves as a guideline for municipalities to assist them in the process. It should be noted that some of these steps can be undertaken concurrently.

FIGURE 5: STEPS TO IMPLEMENT FULL COST RECOVERY



Step 1: Develop a preliminary cost allocation plan

Establish objectives for cost allocation:

- All support services of the municipality must be identified
- All stakeholders (sender and receiver departments) must be identified and included in the process
- A roadmap must be developed, indicating steps, tasks and time frames
- Tasks and a responsibility hierarchy must be clearly defined
- Resources must be identified and allocated
- Allocation methods should be identified and established using the following guidelines:
 - i. Be objective and reasonable
 - ii. Based on documented principles and procedures
 - iii. Based on reliable information
 - iv. Needs to be applied consistently.

Step 2: Analyse the current position

- The financial system must be assessed to determine the costing capability (the Standard Chart of Accounts [mSCOA] project will ensure that all municipal financial systems comply with this requirement)
- Should the financial system be used for allocating costs, the chart of accounts will need to be reviewed to accommodate the costing structure (the mSCOA project has addressed this issue)
- The skills level of personnel on costing must be established
- Departments must be categorised as direct or indirect services
- Any distinct programme areas of service within indirect service departments must be identified (for example, payroll, accounts payable or billing), as well as any indirect service provided by direct service departments and vice versa (for example, the parks department providing facilities and grounds maintenance for all buildings)
- Cost drivers that impact on tariff services must be identified
- Own tariffs and costs must be benchmarked against peer municipalities and benchmarks such as the National Energy Regulator of South Africa (NERSA) should be used.

Step 3: Decide on the costing methodology to be applied

- Determine an appropriate methodology to be used based on an assessment of the system and the skills of personnel
- Determine gaps in skills, systems and the chart of accounts
- Develop a plan to overcome these gaps
- Implement a transparent process with clear accountability
- Decide on the timing of cost allocation (for example, monthly or quarterly).

Step 4: Determine the principles for setting fees and charges

- Determine which services should be charged for
- Identify the departments / cost pools from where costs items are to be allocated to the relevant service departments (cost object)
- The basis of allocation must be determined for each support service
- The allocation of costs must be effective, practical and transparent and must be allocated on a reliable and consistent basis
- The costs to be allocated must be identified
- Determine whether these costs are appropriate, and eliminate costs where services are being rendered at unnecessarily high levels
- Eliminate inefficient costs
- Compile a record of total costs related to the indirect services

- Use allocation measures that reasonably link the cost to the level of service and/or the benefit received
- Implement a phased approach for full cost recovery to mitigate the impact of excessive tariff increases in one year
- Avoid cross-subsidisation of service charges from rates or other services
- Principles should be easily understandable to eliminate unnecessary confusion.

Step 5: Implement service level agreements (SLAs) between sender and receiver departments

SLAs will ensure buy-in, as the relevant parties will have insight into relevant and required information, which will result in ownership of the cost recovery process.

The SLA should indicate the following:

- The SLA between parties must be acceptable to each party
- The SLA must be equitable
- The SLA must be transparent and understandable
- All principles and assumptions underlying the allocations as well as all steps in the calculations process must be clear and open to review
- Determine:
 - » Who will be rendering the service
 - » How will the service be rendered
 - » When will the service be rendered
- Keep in mind that payment for the service represents only the costs of the services rendered.

Step 6: Training

- Develop training material
- All stakeholders must be trained on the costing tool, whether specialist software or spreadsheet training

Step 7: Stakeholder information sessions

- Develop material to improve awareness
- Information sessions must be held to create awareness
- All stakeholders, including oversight committees, should buy into the awareness-raising activities.

Step 8: Develop and produce effective reporting

- Decide on the frequency and format of reporting
- Reporting must include benchmarking against municipalities of similar size.

Step 9: Document procedures

- Establish written procedures for allocating costs, including methods and timelines for posting of costs
- Such a guideline should outline the applicable activities and provide instructions for procedures and practices to be followed
- List the accounts related to the general ledger, and present examples of forms and other documents to be used
- Provide a template for allocating costs.

Step 10: Review the cost allocation process

- Periodically monitor and review the cost allocation process to ensure that all re-charges are still applicable and are based on the relevant costs.

After the model has been completed, calculated and validated, and the necessary corrections applied, the model should be made operational and embedded in an appropriate supporting environment to facilitate maintenance and updating.

Regular back-up procedures must be developed and implemented to ensure that potential data or model corruption can be overcome, and model versions should be maintained by supporting roll-back to a previous environment. Back-ups should be performed at the same frequency that changes are effected. If the model is updated on a monthly basis, then this should be the back-up frequency.

Data-feed procedures should be developed and scheduled to ensure a continuous availability of relevant model results. Data collection inputs should be scheduled and users must be reminded of their input requirements. Should data sources be available electronically and a direct link can be established, this should be taken into account in the model design and scheduled accordingly.

It may become necessary to update the model as and when the municipal environment changes. Such changes may be due to organisational restructuring, new departments or services being created, or a function that no longer exists.

If changes are required, a re-validation of data needs to take place, while the new or changed demands of data must be considered.



If changes are required, a re-validation of data needs to take place, while the new or changed demands of data must be considered.

7. PRINCIPLES FOR SETTING FEES AND CHARGES

The rationale for setting fees and charges at adequate levels is to promote financial stability by recovering all the costs associated with the rendering of a service.

Using cost accounting principles to manage the full cost of providing services enables a municipality to determine appropriate tariffs and ensures that the community receives fair value for the tariffs they pay.

Although it is important to achieve full cost recovery, adjusting prices to achieve equity considerations are important factors impacting on municipal pricing decisions and for determining the appropriate level of cost recovery for given services. This involves balancing the desire to distribute costs equally to all users who benefit from the service with ensuring equal access to those with less capacity to pay. While full cost recovery represents the optimum pricing outcome, it is important to note that there will be situations where it is necessary to address socio-economic issues such as indigence by using a redistributive mechanism (cross-subsidisation). Even in cases where services are subsidised, it is important to calculate the full cost of the service to be able to determine the subsidy that is being provided.

To give effect to these pricing principles, and to make informed, rational decisions about the allocation of resources, councils need to be able to answer the following questions:

- Which costs should be recovered?
- Are these costs promoting the efficient allocation of resources?
- Are these costs allocated in a reasonable and equitable manner?
- How should these charges be structured?
- Are the cost recovery charges based on actual costs?
- Does the allocation method reasonably link to the level of service and/or benefit received?



The rationale for setting fees and charges at adequate levels is to promote financial stability by recovering all the costs associated with the rendering of a service.

8. CHOOSING THE MOST APPROPRIATE COSTING SYSTEM



Many municipalities assume that the development and maintenance of costing models require significant resources.

Many municipalities assume that the development and maintenance of costing models require significant resources. This is not necessarily the case, as there are various options that can be used for full cost recovery calculation, ranging from a simple Excel spreadsheet to something more complex such as a full costing module (specialist software). The complexity of the design will solely depend on the following factors:

- The size of the municipality
- The staff capacity
- The level of information required
- The frequency at which costs are required
- The complexity and diversity of cost objects
- The reporting structure within departments
- The cost of maintaining the system.

The design of a costing system should focus on the magnitude, desired outputs, affordability and maintenance requirements of the system, as well as which information is useful, to whom and when. The latter again raises the question about frequency and how often information should be provided. It is also important to balance the cost of obtaining the information with the benefits the information provides, as costs increase with increasing complexity of the system. A higher level of complexity does not automatically imply that the method is superior. A more complex system will yield more accurate results; however, a more granular approach may be more suitable. The argument between accuracy and complexity needs to be balanced by adopting an approach that is manageable, not overly complicated and fit for purpose. Ideally the operation must be as simple as possible, while providing maximum accuracy. As the demand for additional modeling capabilities and reporting mechanisms grow, more complex specialist software can be acquired. Therefore the choice of a costing system will depend to a large extent on the particular municipality's requirements.

It is important to understand that the costing system is a tool to translate general ledger information (direct / primary costs) into usable management information, and that the outcome thereof will always be equal to the general ledger amount, as it simply involves a redistribution of costs (indirect / secondary costs).

The model should be transparent enough to show which costs were incurred in the process for each activity. The model must be consistent and provide a common method for allocating costs to products and services. The model should be easy to use to ensure that all relevant stakeholders are able to engage with and use it.

9. CASE STUDY

The first step in this research was to engage with a number of municipalities to establish whether they were implementing full cost recovery for their tariff services. A general request for information was then sent to selected municipalities. The purpose was to identify the different ways in which costs are collected and to determine the different naming conventions being used for cost elements. This information was used to gain consensus on the cost elements which need to be included in obtaining full cost recovery of tariff services. A comprehensive list of these cost elements was compiled to assist municipalities and has been included in the standard chart of accounts (*mSCOA*).

uMlathuze Local Municipality was selected as a pilot site for the development of a costing methodology for municipalities. The cost allocation practices of uMhlatuze were reviewed, and it was found that cost allocations were based on both the pro rata and the usage or benefit method.



The first step in this research was to engage with a number of municipalities to establish whether they were implementing full cost recovery for their tariff services.

9.1 LESSONS LEARNED

Reviewing and assessing best practices as applied by the uMhlatuze Local Municipality provided the following key lessons learned:

- It is highly beneficial to use a full year's data set for modeling
- The costing methodology should be reviewed on an annual basis to prevent incremental budgeting
- Proper documentation is required to support the origin of costs as well as the basis of calculations
- It is highly recommended that a full implementation be conducted across all departments, rather than piecemeal implementations
- It is of the utmost importance that SLAs are implemented between sender and receiver departments
- Departments need to understand which services will be rendered to them, as well as the level and cost of such services
- Sender departments need to determine their available resources and establish the receiver departments' requirements to establish whether an over-absorption or under-absorption of resources is occurring
- Proper communication channels should be established between the finance department, and the sender and receiver departments.



Batho Pele City has been created to offer a step-by-step guide on how a user should create a costing model for a municipality.

9.2 UNDERSTANDING THE DESIGN OF A COSTING SYSTEM – A PRACTICAL WALKTHROUGH

Batho Pele City has been created to offer a step-by-step guide on how a user should create a costing model for a municipality. There is no preferred technology and the templates used have been chosen to facilitate explanation of the theory.

Batho Pele City is a secondary city which renders the four main trading services – electricity, water, waste water and waste management – to its community. The City has adopted a costing methodology to obtain cost-reflective tariffs. The City's approach to cost accounting is that only the tariff service departments are charged the full cost of services received in order to determine full cost-reflective tariffs. For the purpose of this exercise, only the water services transactions will be illustrated.

During the budget process the steps below were followed to identify all internal services rendered to the tariff service departments:

- All stakeholders (sender and receiver departments) were invited to sessions to determine which internal services are being rendered to tariff departments.
- The relevance and size of the service being rendered were determined.
- The efficiency of the service was determined (that is, whether the service could be obtained more efficiently from a private supplier)
- The frequency of the service was determined
- The level of the service was determined
- It was also determined whether the service was a normal departmental charge whereby the pro rata method could be applied, or a distribution account whereby the 'usage' or 'benefit' method should be applied for the basis of calculating the cost of the service.
- SLAs were also implemented between sender and receiver departments, indicating when the service will be rendered, and the cost, place and level of the service.

By applying this methodology, it could be determined whether under-absorption or over-absorption of resources was occurring, as well as duplication of resources.

Table 4 depicts the departments / cost centres identified that render internal services to the tariff departments, as well as the basis of calculation for costing these services.

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TABLE 4: BATHO PELE CITY SECONDARY COSTS

<i>Department / function</i>	<i>Basis of calculation</i>	<i>Cost of service</i>
Pro rata method		
Information Technology	Number of computers in each department	54 568 934
Audit Services	Percentage of expenditure	5 128 700
Occupational Health	Number of employees per cost centre	3 690 000
Radio Services	Number of radios per cost centre	1 739 000
HR Services	Number of employees per cost centre	37 980 000
Office Rentals	Per square metre used	35 549 000
Meter Reading Services	Number of meters per service	11 300 000
Financial Services	Percentage of expenditure	25 456 000
Supply Chain Management	Percentage of expenditure	13 678 000
'Usage' or 'benefit' method		
Labour costs	Time sheets (per hour)	78 983 000
Vehicle costs	Log sheets (per km)	67 900 000
Machine & equipment costs	Log sheets (per hour)	36 578 000
Total		372 550 634

Table 5 illustrates the basis of calculation of the costs of providing Information Technology services. The following steps were followed:

- The number of users was determined
- The cost to render the service was calculated
- The user cost was determined
- The relevant cost centres that receive the service were identified.

TABLE 5: BATHO PELE CITY – INFORMATION TECHNOLOGY COSTS

Corporate Services: Information Technology - Vote 101/11

			2012/13	2013/14	2014/15
<i>Vote number</i>	<i>Vote Description</i>	<i>Number Of Users</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
100	Governance and Administration	73	2,886,618	3,030,948	3,182,496
101	Corporate services	178	7,038,602	7,390,532	7,760,058
102	Assessment Rates and Other	45	1,779,422	1,868,393	1,961,812
103	Finance Services	178	7,038,602	7,390,532	7,760,058
104	Safety and Security	97	3,835,642	4,027,425	4,228,796
105	Planning and Economic Development	103	4,072,899	4,276,544	4,490,371
106	Health and Social Development	78	3,084,331	3,238,548	3,400,475
107	Sport, recreation and Community Services	87	3,440,215	3,612,226	3,792,837
108	Housing	54	2,135,306	2,242,071	2,354,175
109	Environmental Management and Agriculture	26	1,028,110	1,079,516	1,133,492
110	Transport and Roads	51	2,016,678	2,117,512	2,223,387
111	Electricity	196	7,750,370	8,137,889	8,544,783
112	Waste Water	57	2,253,934	2,366,631	2,484,962
113	Water Services Department	157	6,208,205	6,518,615	6,844,546
		1380	54,568,934	57,297,381	60,162,250

Table 6 illustrates the re-allocation of costs from the Corporate Services department to the relevant departments.

TABLE 6: RE-ALLOCATION OF COSTS FROM THE CORPORATE SERVICES DEPARTMENT

<i>Corporate Services (CS)</i>									
<i>Description</i>	<i>2007/8</i>	<i>2008/9</i>	<i>2009/10</i>	<i>Current Year 2010/11</i>			<i>2011/12 Medium Term Revenue & Expenditure Framework</i>		
	<i>Audited Outcome</i>	<i>Audited Outcome</i>	<i>Audited Outcome</i>	<i>Original Budget</i>	<i>Adjusted Budget</i>	<i>Full Year Forecast</i>	<i>Budget Year 2011/12</i>	<i>Budget Year +1 2012/13</i>	<i>Budget Year +2 2013/14</i>
<i>R thousand</i>									
Revenue By Source									
Service charges - water revenue									
Service charges - other									
Interest earned - outstanding debtors									
Transfers recognised - operational									
Total Revenue (excluding capital transfers and contributions)									
Expenditure By Type (Primary Costs)									
Employee related costs	164 003	172 203	180 813	189 854	199 347	209 314	219 780	230 769	357 230
Remuneration of councillors	369	387	406	427	448	470	494	519	912
Debt impairment	-	-	-	-	-	-	-	-	91 683
Depreciation & asset impairment	22 891	24 036	25 237	26 499	27 824	29 215	30 676	32 210	123 837
Finance charges	31 723	33 310	34 975	36 724	38 560	40 488	42 512	44 638	116 386
Bulk purchases									
Other materials	17 435	18 307	19 222	20 183	21 192	22 252	23 365	24 533	68 913
Contracted services	14 398	15 118	15 874	16 667	17 501	18 376	19 294	20 259	17 543
Transfers and grants									
Other expenditure	72 642	76 274	80 087	84 092	88 296	92 711	97 347	102 214	111 410
Total primary costs	323 460	339 633	356 615	374 446	393 168	412 826	433 468	455 141	887 914
Expenditure By Type (Secondary Costs)									
CS: Information Technology							7 039	7 391	7 760
Financial services: Audit Fees							-	-	-
Financial services: Meter reading									
CS: Legal Fees									
CS: Office rental							10 650	11 183	11 742
CS: Human resources									
Finance services: Procurement costs									
CS: Fleet Maintenance: Labour costs									
CS: Fleet Maintenance: Vehicle costs							9 700	6 790	3 735
CS: Building Maintenance: Labour costs									
CS: Building Maintenance: Vehicle costs									
Corporate services: Plant and equipment costs									
Total secondary costs: Expenditure							27 389	25 363	23 236
Revenue By Type (Secondary Costs)									
IT Services							54 569	57 297	60 162
Building Maintenance: Labour Costs							32 345	33 962	35 660
Building Maintenance: Vehicle Costs							58 200	61 110	64 166
Fleet Maintenance: Labour Costs							27 453	28 826	30 267
Fleet Maintenance: Vehicle Costs									
Legal Fees									
Office rental							24 899	26 144	27 451
Human Resources									
Total secondary costs: Revenue							197 466	207 339	217 706
Total secondary costs							(170 077)	(181 976)	(194 470)
Total Expenditure	323 460	339 633	356 615	374 446	393 168	412 826	263 390	273 165	693 444
Surplus/(deficit)	(323 460)	(339 633)	(356 615)	(374 446)	(393 168)	(412 826)	(263 390)	(273 165)	(693 444)

Table 7 illustrates the cost allocations received by the Water Services department from the relevant service departments.

TABLE 7: COST ALLOCATIONS RECEIVED BY THE WATER SERVICES DEPARTMENT

<i>Water Services (WS)</i>									
<i>Description</i>	<i>2007/8</i>	<i>2008/9</i>	<i>2009/10</i>	<i>Current Year 2010/11</i>			<i>2011/12 Medium Term Revenue & Expenditure Framework</i>		
<i>R thousand</i>	<i>Audited Outcome</i>	<i>Audited Outcome</i>	<i>Audited Outcome</i>	<i>Original Budget</i>	<i>Adjusted Budget</i>	<i>Full Year Forecast</i>	<i>Budget Year 2011/12</i>	<i>Budget Year +1 2012/13</i>	<i>Budget Year +2 2013/14</i>
Revenue By Source									
Service charges - water revenue	1 036 701	1 232 886	1 325 321	1 475 000	1 485 000	1 485 000	1 618 400	1 820 700	2 048 287
Service charges - other	5 532	5 993	6 466	7 150	7 050	7 050	7 500	8 400	9 324
Interest earned - outstanding debtors	27 676	28 590	29 780	31 250	33 775	33 775	35 000	36 750	38 588
Transfers recognised - operational	35 689	65 487	154 985	82 949	79 695	79 695	187 987	253 552	91 901
Total Revenue (excluding capital transfers and contributions)	1 105 598	1 332 956	1 516 552	1 596 349	1 605 520	1 605 520	1 848 887	2 119 402	2 188 100
Expenditure By Type (Primary Costs)									
Employee related costs	194 003	221 491	245 801	262 272	266 437	266 437	308 520	331 844	357 230
Remuneration of councillors	469	478	617	647	647	647	758	831	912
Debt impairment	65 335	67 495	70 308	71 235	81 564	81 564	84 522	87 987	91 683
Depreciation & asset impairment	47 891	47 481	43 565	87 974	81 183	81 183	88 630	119 650	123 837
Finance charges	80 723	84 087	90 416	96 186	96 186	96 186	101 785	106 874	116 386
Bulk purchases	311 541	334 304	359 080	389 458	397 633	397 633	437 922	483 903	537 133
Other materials	28 435	40 501	33 667	38 980	40 043	40 043	59 385	64 135	68 913
Contracted services	5 398	13 158	14 133	15 531	15 197	15 197	15 688	16 629	17 543
Transfers and grants	169 092	223 560	255 240	296 755	296 755	296 755	300 168	338 256	379 080
Other expenditure	71 642	79 811	86 563	92 680	91 232	91 232	96 542	102 871	111 410
Total primary costs	974 528	1 112 366	1 199 390	1 351 719	1 366 877	1 366 877	1 493 920	1 652 981	1 804 127
Expenditure By Type (Secondary Costs)									
Corporate services: IT							8 462	8 885	9 330
Financial services: Audit Fees							1 267	1 330	1 397
Financial services: Meter reading							6 678	7 012	7 362
Corporate services: Legal Fees							3 567	3 745	3 933
Corporate services: Office rental							12 116	12 722	13 358
Corporate services: Human resources							8 793	9 233	9 694
Finance services: Procurement costs							5 456	5 729	6 015
Corporate services :Fleet									
Maintenance: labour costs							9 352	9 820	10 311
Corporate services: Fleet									
Maintenance: Vehicle costs							27 892	29 287	30 751
Corporate services:Building									
Maintenance: Labour costs									
Corporate services: Building									
Maintenance: Vehicle costs									
Corporate services: Plant and equipment costs							18 367	19 285	20 250
Transport and Roads: labour costs							4 117	4 323	4 539
Total secondary costs: Expenditure							106 067	111 370	116 939
Revenue By Type (Secondary Costs)									
IT Services									
Building Maintenance: Labour Costs									
Building Maintenance: Vehicle Costs									
Vehicle Maintenance: Labour Costs									
Legal Fees									
Office rental									
Human Resources									
Total secondary costs: Revenue							-	-	-
Total Expenditure	974 528	1 112 366	1 199 390	1 351 719	1 366 877	1 366 877	1 599 987	1 764 351	1 921 066
Surplus/(deficit)	131 070	220 590	317 162	244 630	238 643	238 642	248 900	355 051	267 034

10. PRINCIPLES OF GOOD GOVERNANCE

Municipalities have responsibilities concerning good governance. They need to set prices that meet the requirements of the direct benefit principle. This means that the tariff structure charged for a service should be in proportion to the benefit received by the consumer. On the one hand this is a matter of fairness; on the other hand, wastage of valuable resources is prevented.

The tariff structure should be transparent and accurately reflect the costs incurred in producing a service.

Municipalities whose tariffs are far below the full cost recovery rate need to phase in their tariff increases over a period of time to protect their consumers from excessive and unaffordable tariff increases.

Lastly, the key to good costing methodology is to engage personnel with the relevant experience in the process so they can apply their depth of judgment and experience when limited project-specific information is available.



Municipalities have responsibilities concerning good governance. They need to set prices that meet the requirements of the direct benefit principle.

11. ANNEXURE

GLOSSARY

<i>Activity based costing method</i>	A methodology for allocating costs to products and services which seek to identify cause and effect relationships to objectively assign costs.
<i>Avoidable costs</i>	The costs that would be avoided if a particular activity was no longer undertaken.
<i>Inflated costs</i>	Where costs are artificially inflated above efficient levels – often motivated by the knowledge that costs can be recovered.
<i>Cost recovery</i>	The recuperation of the costs of government provided or -funded products or services that, at least in part, provide private benefits to individuals, entities or groups, or reflect the costs their actions impose.
<i>Cross-subsidisation</i>	Where one group of users pay more than the costs of the goods/services that they receive, and the 'surplus' is used to offset the cost of goods/services provided to other users.
<i>Direct costs</i>	Costs that can be readily and unequivocally attributed to a product or activity because they are incurred exclusively for that particular product/activity (e.g. labour and materials).
<i>Efficiency (allocative)</i>	In the context of cost recovery, efficiency tends to mean the allocation of resources to the most valuable uses for society as a whole.
<i>Equity</i>	In general, the term equity reflects concepts of fairness or justice. In a public finance context, 'horizontal equity' refers to treating people in similar situations in similar ways. 'Vertical equity' refers to those with greater means contributing proportionately more than those with lesser means.
<i>Full cost recovery</i>	The recuperation of all costs associated with specific activities or products. Full cost represents the value of all the resources used or consumed in the provision of an output or activity. In addition to the costs directly associated with the output/activity, full cost includes an appropriate allocation of indirect (including capital) costs.
<i>Above average standards</i>	Where unnecessarily high standards or facilities are adopted.
<i>Incremental costs</i>	The increase in costs attributable to the production of a particular type of activity
<i>Indirect costs</i>	Costs that are not directly attributable to an activity – often referred to as overheads (e.g. corporate services).
<i>Marginal costs</i>	A marginal costing concept focusses on variable costs or how the costs of outputs or activities will change if a specific level of activity increases or decreases. This concept is very useful if level-of-service decisions are to be made. This process will also assist in identifying any inefficiency.
<i>Pro rata approach</i>	A method for allocating indirect costs on a proportionate basis by using measures that are easily available.
<i>Usage or benefit cost</i>	A method for allocating indirect costs by measuring or estimating the actual usage of resources.

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SEGMENT: COSTING

STANDARD CHART OF ACCOUNTS

Posting Level	VAT Status	Code Structure													Count	Posting Level (Yes/No)	Break-down Allowed (Yes/No)	Principle	Applicability		
		1	2	3	4	5	6	7	8	9	10	11	12	13							
	N/a	C	000	000	000	000	000	000	000	000	000	000	000	000	000	0	No	No	Provide detail to SCOA TC	Minimum	
Departmental Charges: Accounting	N/a	C	001	000	000	000	000	000	000	000	000	000	000	000	000	33	Yes	Yes	Breakdown accounts may be added	Minimum	
Departmental Charges: Asset Management	N/a	C	002	000	000	000	000	000	000	000	000	000	000	000	000	39	Yes	Yes	Breakdown accounts may be added	Minimum	
Departmental Charges: Audit Fees	N/a	C	003	000	000	000	000	000	000	000	000	000	000	000	000	33	Yes	Yes	Breakdown accounts may be added	Minimum	
Departmental Charges: Audits, Investigation and Risks	N/a	C	004	000	000	000	000	000	000	000	000	000	000	000	000	0	No	No	Provide detail to SCOA TC	CoC	
Departmental Charges: B...	N/a	C	005	000	000	000	000	000	000	000	000	000	000	000	000	0	No	No	Provide detail to SCOA TC	Minimum	
Departmental Charges: B...	N/a	C	006	000	000	000	000	000	000	000	000	000	000	000	000	0	No	No	Provide detail to SCOA TC	Minimum	
Departmental Charges: Services	N/a	C	007	000	000	000	000	000	000	000	000	000	000	000	000	33	Yes	Yes	Breakdown accounts may be added	Minimum	
Departmental Charges: Communication and Relations	N/a	C	008	000	000	000	000	000	000	000	000	000	000	000	000	39	Yes	Yes	Breakdown accounts may be added	Minimum	
Departmental Charges: Communication - Application	N/a	C	009	000	000	000	000	000	000	000	000	000	000	000	000	33	Yes	Yes	Breakdown accounts may be added	Minimum	
Departmental Charges: Communication - Ware	N/a	C	010	000	000	000	000	000	000	000	000	000	000	000	000	54	Yes	Yes	Breakdown accounts may be added	Minimum	
Departmental Charges: Communication - Data Lines	N/a	C	011	000	000	000	000	000	000	000	000	000	000	000	000	30	Yes	Yes	Breakdown accounts may be added	Minimum	
Departmental Charges: Communication - Radio; Maintenance	N/a	C	012	000	000	000	000	000	000	000	000	000	000	000	000	000	42	Yes	Yes	Breakdown accounts may be added	Minimum
Departmental Charges: Cross Subsidisation	N/a	C	013	000	000	000	000	000	000	000	000	000	000	000	000	000	41	Yes	Yes	Breakdown accounts may be added	Minimum
Departmental Charges: Democratic Process	N/a	C	014	000	000	000	000	000	000	000	000	000	000	000	000	000	34	Yes	Yes	Breakdown accounts may be added	Minimum
Departmental Charges: Directorate	N/a	C	015	000	000	000	000	000	000	000	000	000	000	000	000	000	40	Yes	Yes	Breakdown accounts may be added	Minimum
Departmental Charges: Employee Benefits	N/a	C	016	000	000	000	000	000	000	000	000	000	000	000	000	000	40	Yes	Yes	Breakdown accounts may be added	Minimum
Departmental Charges: Employment Equity	N/a	C	017	000	000	000	000	000	000	000	000	000	000	000	000	000	34	Yes	Yes	Breakdown accounts may be added	Minimum
Departmental Charges: Expenditure	N/a	C	018	000	000	000	000	000	000	000	000	000	000	000	000	000	39	Yes	Yes	Breakdown accounts may be added	Minimum
Departmental Charges: Event Management	N/a	C	019	000	000	000	000	000	000	000	000	000	000	000	000	000	45	Yes	Yes	Breakdown accounts may be added	Minimum
Departmental Charges: General Administration	N/a	C	020	000	000	000	000	000	000	000	000	000	000	000	000	000	49	Yes	Yes	Breakdown accounts may be added	Minimum

The Costing methodology spreadsheet is available on the CD contained with this publication

Notes



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA