

The Roles of Costing and Cost Allocation in the New Public Service Regime in Australia

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Abstract

New Public Service (NPS) has emerged as a new public service provision philosophy, following the decline of New Public Management (NPM). This study captures empirical accounts of service provisions in a local Australian government and interprets cost information usage in light of NPS. Based on evidence gathered between 2003 and 2012, the study evaluates the uses of cost information, during the new NPS era, for its operating decisions. The findings reveal that political ideologies and directives surrounding service provision take precedence over the functional accuracy of cost information, to benefit the service users, that is, the citizens. The study concludes that cost information has become secondary in the NPS era and implies increased levels of understanding and awareness among cost information preparers for political managers and local citizens. Employees and political administrators have implications for their roles and the risks involved in using the compromised cost information.

Keywords: *New Public Service (NPS), amalgamation, city council, overheads, cost information, public administrators.*

1. INTRODUCTION

The academic literature (Arnaboldi & Lapsley, 2005; Groot & Budding, 2004; Paulsson, 2006) suggests that cost information (including overhead allocations) is required in different types of organizations for an array of managerial uses (Heitger *et al.*, 2007; Horngren *et al.*, 2009; McGowan & Vandrzyk, 2002), including decision making and control of the organization (Huijben *et al.*, 2014). Studies have shown that cost information is central to measuring efficiency and productivity (Van Helden & Huijben, 2014; Verbeeten, 2011).

In the 1990s New Public Management (NPM) reforms were introduced globally and many government organizations relied on private sector costing models in an accrual accounting environment (Hood, 1995) due to an excessive emphasis on costs and less emphasis on users' rights. A new philosophy, New Public Service (NPS), has been emerging as a government service delivery philosophy to allow more public input into service provisions preferences and costs of such provisions (Denhardt & Denhardt, 2007; Denhardt & Denhardt, 2015; Denhardt & Denhardt, 2000).

Due to the political nature of both NPM and NPS philosophies, their technical costing procedures are not discussed in detail. However, empirical evidence on cost information shows that public sector organizations use cost information for a variety of uses. Mohr (2015) examined four different uses of cost information, Levine (1985), as well as Coe and Sullivan (1993), found beneficial uses of cost information during financial distress, Flury and Schedler (2006) unpacked the tensions between politicians' and administrator managers' costing calculations, Van Helden and Huijben (2014) examined the importance of understanding the size of overheads in government organizations, and finally, Groot and Budding (2004) reported the use of overhead cost information for pricing of waste collection and marriage services during the NPM era.

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Still, the theoretical and empirical evidence on the use of cost information lacks an approach that integrates political theories and technical procedures of costing. There are calls for more research (Mohr, 2015; Van Helden & Huijben, 2014) using political theories (Groot & Budding, 2004; Van Helden & Huijben, 2014) in international contexts (Van Helden & Huijben, 2014). Ter Bogt's (2008) study has examined the use of cost information during the NPM era, but there is hardly any study during the NPS era. There have been a few studies on uses of cost information in the Australian government sector i.e. examining costing in the Health Care sector (Chua, 1995; Everett & McLeod, 1991); and the service sector (Carnegie *et al.*, 2011; Hoban, 1995), yet, very little is known about the recent technical costing procedures in the context of Australian local government. This sector is important due to its size and responsibilities to provide essential services to the Australian local citizens through annual budget allocations (funding).

This study is aimed to fill these gaps in the extant research on the use of cost information, grounded in political theories of the NPS in the context of a single Australian public sector organization. There is some justification for pursuing this research because of the shift in emphasis on the engagement of political administrators in public offices and their increasing influence on compliance reporting through organizational accounting practices (Ter Bogt, 2008). Thus, the key research question is: *How does a costing system tackle the diverse needs of cost information in a politically oriented government organization?*

To address this issue, we will first review the relevant literature on technical costing procedures in a government-operating environment, adding contextual insights from the literature on public administration. We will then evaluate the empirical evidence through the contextual technical costing procedures, enriched by insights from the emerging NPS philosophy (Abernathy, 2012; Denhardt & Denhardt, 2000; 2007; 2015; Faulk *et al.*, 2013). Evidence will be collected from a public-funded local government organization in New South Wales, anonymized as Alpha. The evidence covers the years 2003 to 2012:

- the time the Australian Labour Party ruled the Australian government – during which the costing practice followed Australia's economists' approach of the late 1980s (Wiesel & Modell, 2014).

The paper contributes to the literature on government cost accounting systems and procedures in two different ways: firstly, it evaluates the costing regime for service provision in the context of the under-researched local governments of Australia in the NPS era; and secondly, it enhances our understanding of the use of cost information by political administrators in pursuit of a socially optimal level of government service provision. The remains of the paper is organized as follows: in the second section, the policy background of the Australian local government system surrounding the reforms is discussed; in the third section, the relevant literature is reviewed; in the fourth section, research method is discussed; in the fifth section, the case study evidence is described; and in the final section, discussions and conclusions are presented.

2. LOCAL GOVERNMENTS WITHIN THE AUSTRALIAN GOVERNMENT SYSTEM

The Australian government, which became a federation in 1901, is a three-tiered government system. Firstly, the Commonwealth government which is represented by a descending hierarchy of the Governor-General, the Prime Minister, and the Members of the Parliament is allowed, under section 51 of the Australian Constitution, to administer laws in defense, immigration, foreign affairs, trade, postal services and taxation. The State Governments are the second tier of the Australian government and have their own Parliaments to approve laws in all areas except matters in s51 above. The local government (city council) is the third tier of the Australian government and is led by Mayors/Council Managers under the state laws. Now, the New South Wales (NSW) local government system is the largest of these systems. As explained in section 115 of the NSW Local Government Act (1993) the local governments receive revenues from ordinary and special purpose rates, charges, fees, grants and borrowings, income from business activities, land, investment, and sale of assets. The operations of city councils in Australia have influences from local and state politics, and because of such influences, the revenue and expenditures get different priorities, commensurate with the economic and political agendas of parties in politics. In this study, the account of the political influences of the labor government on local government operations in NSW has been captured.

2.1 The Australian political context and service delivery from local governments

The Australian context deserves some attention, in the light of changes in the political, economic and social policies of the Australian Government over the past three decades. The Australian Labour Party (ALP) has been in power from 2007 to 2011 focusing primarily on contestability and marketization principles, in order to address the declining productivity and efficiency of public sector organizations. This followed the prior Labour Government's initiatives to address productivity concerns and outcome measurement problems with a Financial

Management Improvement Program (FMIP). During this time, cost allocation played an important role in decision-making (Considine *et al.*, 2014; Wright *et al.*, 2011).

The Labour government's approach was co-operation across the government sector, as well as cost reduction from mass production initiatives, to address the efficiency and productivity concerns. During this time, cost allocation and costing lost their importance within the doctrines of NPS reforms due to a forced amalgamation scheme within the Australian local government context (Adler *et al.*, 2012; Drew *et al.*, 2014; 2016). Within these two politically opposite regimes, cost allocation as an organizational practice moved along the continuum, from a commercial-style to an economist's approach to allocation. The use of cost information also changed direction when the information was sought for decision-making and when resource usage, service provision and the residents' welfare were politically legitimized.

2.2 Australian Local Government Amalgamation (2003-2012)

The reform agendas of the efficiency and productivity of local government entities have seen amalgamations in all six Australian states (Johnston, 2000; McGrath, 2009). Dollery (2007b) identified two themes that underpinned the amalgamation of local governments across Australia, namely, an economic perspective, and an ideological imperative (see also, Dollery *et al.*, 2007b; Dollery *et al.*, 2008). The key arguments are that local government services must benefit the users or the residents within their jurisdictions, and costs per unit must be reduced by way of mass production of services where organizations have high fixed and low variable costs.

Amalgamation has also been justified when city councils have high administrative costs that need to be reduced through mass production. The Labour government's economy of scope implicitly assumes the presence of high fixed costs and required mass production for cost reduction. A large council can afford to employ experts needed for mass production and will be able to achieve scale economies in their administration and compliance costs. Finally, the geographically and legally defined local government boundaries must coincide, based on three principles: (a) social capital reflecting the ownership of a landscape and its people; (b) the maximization of a catchment of natural resources; and (c) the jurisdictional boundary being capable of adjusting to the demand for services in an affordable manner.

3. THEORETICAL DEVELOPMENT ON COST INFORMATION IN THE PUBLIC SECTOR

Costing information is used in the private sector for product pricing, product profitability analysis, buying decisions, and alternative decisions such as adding a product or service (Horngren *et al.*, 2015), but such information requires adaptation to suit public sector operating and political objectives (Mohr, 2015). The apparent dissimilarities between public and private sectors make it challenging to contextualize cost accounting in a non-profit setting and efforts are made to use the principles of private-sector cost accounting where no public sector information exists (Mohr, 2015). Several primary functional uses of cost information are identified by Mohr (2015).

3.1 User charging

User charging is the corollary to price setting in government organizational context that enhances user charging, or rate setting, and cost comparison decisions (Coe & O'Sullivan, 1993; Hendrick, 2011; Weiss, 1997). Cost allocation is also crucial in inflows of services between government departments (Mohr, 2015). Existing literature on costing assumes that accurate cost information is available for all services, because of the availability of sophisticated costing systems, such as an Activity-Based Costing (ABC) system (Hoban, 1995; Kaplan, 1988). The decade-long influence of NPM established the culture of an accurate costing system and cost-benefit of government programs. The key observation is that an organizational level activity and a cost allocation scheme are positively associated.

The inclusion or exclusion of overhead for user charging is driven by the competing agendas of a government organization. While the emphasis of these technical uses of a cost allocation scheme is too much on accuracy (Osborne & Gaebler, 1992), the shift in paradigm from competition to cooperation de-emphasizes accuracy over service availability (Wiesel & Modell, 2014). The government entities pose significant externalities from their activities and thus require the inclusion of the costs of such externalities by using a proxy measure, such as cost-benefit analysis (Johnstone, 2002; Mullins & Zorn, 1999).

Including all costs in full costing, the environment is challenging because of sunk government investments. For example, in Cardullo and Mollenberndt (1987), investment in fixed telephone lines posed problems for user charging because of the arbitrary nature of the depreciation allocation, in the form of line rental charges, between

commercial and residential users. The rationale is that these costs must be absorbed for cost recovery reasons (through the pricing scheme) (Ellwood, 1996). The last challenge for setting user charging is the presence of externalities from organizational activities, hence requiring the inclusion of the externalities' costs by using a proxy measure, such as cost-benefit analysis (Johnstone, 2002; Mullins & Zorn, 1999).

3.2 Transfer pricing

Transfer pricing, common in vertically integrated firms, is a function of contingent factors underlying the dynamics of internal organization, strategy, structure or a combination of all (Perera *et al.*, 2003; Van Helden *et al.*, 2001). Transfer pricing changes over time in operations for economic and social reasons (Van Helden *et al.*, 2001). Two micro approaches focusing on methodological characteristics and processual attributes are captured in the cost-based and market-based methods (Perera *et al.*, 2003) – primarily used in manufacturing but equally useful to government organizations (Perera *et al.*, 2003).

Transfer pricing is an internal pricing mechanism dependent on several internal and external organizational factors. In the framework of Emmanuel (1994), organization structure, strategy with respect to differentiation, the internal transaction context, and associated performance evaluation, reward, and control systems are the determinants of transfer prices. While in Spicer (1988) and also Colbert and Spicer (1995), intra-firm transactional context, including the degree of transaction-specific investment or asset specificity, and the organization's structure and control systems determine transfer prices. Model of Van der Meer-Kooistra (1994) posited a linkage between transfer pricing and organizational control characteristics (structure, performance measurement and reward, and the intra-firm transactional context), while Eccles (1985) suggests that transfer pricing is strategy-driven, and vertical integration and diversification determine a transfer pricing system. He suggests that market-based transfer prices are appropriate where diversification is high (mandated where vertical integration is high, and exchange autonomy-based when vertical integration is low), and full cost-based transfer pricing is appropriate when vertical integration is high, but diversification is low. His model is sensitive to the appropriate alignment between a transfer pricing system and the alignment of the strategic intent of a firm.

Several studies focus on how overheads are used to generate a transfer price. In Toktay and Wei's (2011) optimal transfer pricing model, initial production costs are treated as common costs (overheads), allocated to manufacturing and re-manufacturing operations, and some fixed costs are transferred to non-manufacturing operations to make production and pricing decisions. Vidal and Goetschalckx's (2001) mathematical formula tackles the transportation costs of the global supply network of a multinational firm in Sweden to optimize after-tax profits, through internal transfer pricing, between the firms located in different parts of the globe. Khumawala, Parsons, and Gordon (2005) suggest how multinational firms can strategically allocate costs between segments, a form of charge-out or transfer price, based on trait coordination and the non-disclosure of such choices, to specialize in products across the globe.

3.3 Cost allocation for grant reimbursement

Government departments rely on grants from the Federal government's annual budget allocation. In America, organizations receiving over USD \$500,000 from the Federal government must file a single audit (Mohr, 2015). In Australia, local governments receiving between AUD \$1-2 million must use full costing (including an allocation of overheads) to justify their service providers through competitive bidding (Ahmed, 2005). In America, establishing an indirect cost rate is necessary if grants are to include compensation for indirect costs, such as building space and administration (Mohr, 2015).

Grant applications promote the use of a cost accounting plan if indirect costs are included in the application. Some organizations ignore the reimbursements for indirect costs because of the issues that arise from the use of a cost accounting system, while others simply exclude indirect costs, and hence a cost allocation plan if indirect costs make the grant application more competitive. However, if an organization is too dependent on grants from another government department, using a cost allocation plan to rationalize the use of grants for service provision is worthwhile (Mohr, 2015; Ahmed, 2005).

3.4 Cost management through a cost allocation

Cost allocation is a common response to the cost reduction problem (Mohr, 2015). When costs are allocated, user departments are alerted by an increase in total costs (Zimmerman, 1979) and try to be frugal (Geiger, 2011; Mohr, 2015), beginning the process of cost reduction by examining their operations (Levine, 1985). In the government context, cost management may require the reprioritization of service provision, or the elimination of less valued services (Mohr, 2015).

Some studies have examined how cost information is helpful in government organizations. Coe and Sullivan (1993) found that some US cities saw costing as important for justifying budget decisions and contracting services. The City of Indianapolis used cost accounting to reduce costs through competitive bidding by 60% and maintained the in-house provision of services. Ahmed (2005) found similar evidence in an Australian government organization that rationalized an in-house service through the competitive bidding process and reduced the cost of service provision by 50%. Greiger (2011) found evidence of inefficiency in a US garrison. By using the cost management tool, the garrison pinpointed the over-use of indirect costs and eliminated them for use elsewhere. Similarly, cost information is useful to evaluate alternative choices. Kaplan and Atkinson (2015) identified how the use of full costs reversed profitability figures in a US hospital's dialysis treatment options. Comparing costs through the benchmarking of government services is a recent addition to the government costing information era (Huijben *et al.*, 2014). For the benchmarking of services, local governments are to be adjusted for varying resources (Mohr, 2015). In the benchmarking process, a cost accounting system requires the inclusion of indirect costs, such as capitalization, human resources, and information technology costs. As performance measurement is important in the financial management area of government, cost allocation can be a handy tool to achieve this (Ho, 2011; Mohr, 2015). In different government sector organizations, Key Performance Indicators (KPIs) have become a norm (Afonso *et al.*, 2005; Bevan & Hood, 2006). This is a mirror image of the outcome measures and is closely linked to the costs of services.

3.5 New Public Service (NPS)

Following the demise of New Public Management (NPM) (Hood, 1995; Hyndman & Lapsley, 2016) for government service delivery, New Public Service (NPS) (Denhardt & Denhardt, 2000; 2007; 2015) has emerged as an alternative form of managing government service provision. It focuses on citizens as users rather than consumers, i.e. from collaboration to cooperation, and from NPM to NPG (Denhardt & Denhardt, 2000; Wiesel & Modell, 2014). NPS describes a set of practices that emphasizes democracy and citizenship as the basis of the public administration theory and practice (Denhardt & Denhardt, 2015). Denhardt and Denhardt (2000) argue that NPS has three contemporary precursors: (a) the theories of democratic citizenship; (b) the models of community and civil society; and (c) the organizational humanism and discourse theory. These theories have common core elements, suggesting that democratic citizenship and public interest are also cored to the NPS theory. The citizens' interests are best served through dialogue with public administrators and political representatives. Denhardt and Denhardt (2000) summarize the perspectives of NPS as follows:

Table 1: Summary of the perspectives of New Public Service (NPS)

Construct	Perspective
Theory and epistemology	Democratic theory; positivism, interpretive, critical, and postmodern
Rationality and human behavior	Strategic; political, economic and organizational
Conceptions of public interest	Dialogue about shared values
Accountability of public servants	Citizens
Role of government	Serving the citizens (by negotiation and brokering)
Achievement of policy objectives	By partnerships (public, non-profit and private agencies)
Accountability	Multifaceted (compliance with laws, political norms, and citizen interest)
Administrative discretion	Constrained
Assumed organizational structure	Collaborative (shared leadership)
The motivation of public servants and administrators	Public service (contribute to society)

Source: Adapted from Denhardt and Denhardt (2000)

NPS is organized around seven core arguments related to the role of public service in facilitating citizenship and promoting democratic governance, which is further distilled into four questions (Denhardt & Denhardt, 2015). These questions summarize the role of public servants in providing goods and services through government budgets. To rationalize the increased participation of citizens in service provision, the tenets of NPM are re-examined for two reasons. First, there is increasing evidence that service provision through competition is not working, suggesting a need to look for alternative methods. Secondly, rising costs from the 'so-called efficient service provision' methods due to the increased monitoring of services are a concern (Denhardt & Denhardt, 2015; Warner, 2008), which suggests removing layers of costs relating to contracted-out services. For example, Warner (2008) found that four out of ten contracted-out services were contracted back in due to citizens' dissatisfaction. Following the alleged failure of the market model of service provision, other alternatives have been tested over the past decade, such as private-public partnership, in-house provision through the development of government's capacity building (Denhardt & Denhardt, 2015) and the consolidation of government departments (Abernathy, 2012). These alternatives are chosen to balance efficient service provision and socially

optimal solutions (Warner, 2008). In this paper, we focus on structural reform through the amalgamation of organizations.

Scholars who argue for an amalgamation argue that economies of scale and economies of scope can result in substantial cost savings for a government. Economies of scale suggest an inverse relationship between high production volume and low costs per capita because in a high production volume, fixed costs (administration expenses) are spread over a larger quantity of goods (Callanan *et al.*, 2014), making an organization more efficient (Reingewertz, 2012). Economies of scope pool and use resources by the amalgamated organizations, such as administrative services or computing facilities (Dollery *et al.*, 2007b). The amalgamation also poses problems for economic and land use planning (Kushner & Siegel, 2003). After an amalgamation, there are fewer organizations to manage, though the territories remain the same (Steiner & Kaiser, 2017).

Empirical evidence on NPS success is mixed. In the UK, evidence of success is rare (Andrews, 2013). Most studies focus on amalgamation's costs and benefits at an aggregated level, during different ruling parties in the UK and Wales. Chisolm's (2002) study raised concerns that restructuring costs were never recouped from efficiency improvements. Andrews and Bryne (2009) speculated overhead cost reductions from a restructuring scheme but did not explore the benefits from economies of scale. Similarly, Andrews and Boyne (2012) reported a 1% cost increase (£40 million) after the voluntary restructuring of some UK city councils in 2009. Andrews (2013) examined the evidence of theoretical arguments for amalgamations, cast doubts about efficiency savings from amalgamation, but acknowledged that administration team sharing arrangements temporarily reduced some city councils' costs.

US evidence of city-county consolidation is mostly negative, except the study of Faulk and Hicks (2011), who found some evidence of cost reductions. Other studies reported that after consolidation, services became more expensive. Feiock (2016) reported an increase in taxes and expenditures; Martin and Schiff (2011) reported no evidence of efficiency improvement through improved delivery of services or lower costs. In a study of consolidated and non-consolidated counties, Leland and Thurmaier (2006) reported no difference in efficiency levels following consolidation. In a comprehensive case study from 800 interviews, Condrey (1994) found that increased efficiency resulted from expenditure cuts. Selden and Campbell (2000) found real and per capita expenditure increased following the consolidation of city counties.

Country-specific studies in Europe on amalgamation revealed different outcomes. Silberstein and Soguel (2012) reported on the perceptions of citizens living in two Swiss municipalities, finding that citizens were likely to prefer amalgamation only if councils maintained the status quo of services or improved them, and only if access to council offices and local representatives was allowed. Thus, the balance is more towards citizens' rights and engagement with city council activities. In another study of 2400 Swiss municipalities, Steiner (2003) found no evidence of widespread expenditure reductions after amalgamation. The result was high expenditure levels to improve the quality of services, invest in infrastructure, increase staff levels in amalgamated councils, and improve professionalism among staff.

Canadian evidence of consolidation's effect on cost reductions is mixed. Vonjovic (2000) reported increased salaries in five consolidated local governments in Ottawa. Reese (2004) reported salary increases in consolidated Ottawa city councils and overall increases in expenditures. Kushner and Siegel (2005) reported expenditure level changes in three merged city councils from 29 city councils in Ontario. Two of these councils reported increases in expenditure levels and no cost savings.

Australian evidence largely rejects any benefits from forced amalgamations since 1990 (Dollery *et al.*, 2007a; Dollery *et al.*, 2009). Some studies, however, report cost reduction after consolidations. Howard and Zwart (2000) examined the consolidations of four Tasmanian city councils. Two reported administrative cost reductions increases in levels of services and rate rises, whereas the other two reported only a rise in tax rates.

4. RESEARCH METHOD

Case study research provides an opportunity for an in-depth analysis of research issues (see for example, Kathleen, 1989; Yin, 2009), and Kaplan (1986) argues that they are suitable for studying complex organizational problems. The current study is an exploration of the uses of cost information during the Australian Labour Party regime, between the years 2003 and 2012, when the Labour Party brought forth new changes for service provisions, accountability and compliance at state (New South Wales) and federal levels.

We have collected data for this study from four different sources: from Alpha's archives (web-based and official documents), from local press clippings, from semi-structured interviews, and from the available literature on

Australian local government reform during that time. The literature on government cost and commercial sector cost accounting guided the selection of variables for this study.

Four uses of cost information we localized represented the lion's share of Alpha's revenues or expenditures in terms of annual budgets and accounted for Alpha's existence as a local government organization (Geiger & Ittner, 1996). The official documentation revealed that cost information was either legislated or based on stakeholders' consensuses. Evidence was also sourced from the Australian governmental websites or government reports and generally related to the temporal changes affecting the local government fields (Johnston, 2000). The robust proprietary data, over 250 pages of archival sources, met the data collection needs. An additional six interviews to supplement the archival data also conducted and supported in this research.

Two key informants (the Management Accountant and the Manager of Corporate Development) were contacted for the focus group interviews (Johnston, 2000). The Management Accountant was part of all committees for financial management matters. The Manager of Corporate Development worked in all internal committees, possessed important information, and was responsible for liaising with the stakeholders and political representatives.

The table below shows the areas of Alpha's operations examined with the key informants and archival documents. The interviews were undertaken in 2014 and covered the longitudinal changes in the provision of cost information over a 13-year period. Longitudinal case studies have high internal validity, establish a good cause-and-effect relationship, and offer the opportunity to test the sensitivity of measured constructs over time (Leonard-Barton, 1990), and is a commonly-used technique for studying accounting practices (Giovannoni *et al.*, 2011; Jack *et al.*, 2013; Tsamenyi *et al.*, 2010).

Table 2: Interviews (2003-2012)

Explored areas	Number of interviews
Children's services	1
Sports and Recreation	1
Assets	1
Design services	1
Building works	1
Civil works	1

Each interview was tape-recorded, transcribed, and sent to the key informants for corroboration. The interviews reflect the provision of information to six areas of Alpha's operations, and the experiences of the interviewees between the years 2003 and 2012. A similar approach was used in earlier studies to capture information over a long period (Malmi, 1999; Ter Bogt, 2008).

The official documents were analyzed using coding and content analysis. Furthermore, evidence was corroborated using the triangulation approach (Patton, 2002; Ryan *et al.*, 2002; Yin, 2009). The generalizations reached in this paper are analytic and therefore subjective (Cooper & Morgan, 2008; Lukka & Kasanen, 1995; Patton, 2002). Multiple evidence sources checking for convergences and divergences between technical costing theories have been sifted, NPS theories, and the empirical evidence on amalgamation (Lukka & Kasanen, 1995; Patton, 2002; Yin, 2009). The objective is to build substantial arguments for validation in other similar future cases (Lukka & Kasanen, 1995).

5. ALPHA, ITS COST INFORMATION, AND THE COMMUNITY ENGAGEMENT ISSUES

Alpha is one of the largest city councils in Australia in terms of annual budgets and the number of ratepayers. Currently Alpha has 220,000 (census 2016) ratepayers, offering 400 different services to its ratepayers. Alpha also changed its rating strategies, budgeting practices, and costing systems to comply with the reporting requirements of the New South Wales Department of Local Government.

In 2003 Bob Carr became the Premier of New South Wales. The change in government brought about changes in service provision arrangements from a competitive to co-operative model. The cooperative model was primarily based on amalgamation principles of economies of scope and public choice arguments. (Bayou, 2008).The differential charges for storm water levy of \$25 for Residential users and \$12.50 for Pensioners further reinforces the ethos of NPS of access and equity of services, revealing an apparent disconnect between Alpha's user charging policies and the actual charges to different classes of beneficiaries of the same quality services.

As another source of its revenue Alpha recovers rates based on the value of land parcels on which residential and industrial properties were located. Alpha's use of a minimum plus Ad-Valorem Rating strategy suggests that rates

were partially variable. Alpha also used rate capping. Pensioners' discounted rate payments evidenced the presence of subsidies in line with the NPS philosophy in that democratic rights to access was more valued than uniform charging without subsidies (a norm in NPM philosophy). Contrary to discounted rate payments through rebates, Residential rate and Business rate receipts were uniform in total receipts.

Alpha had to change its *transfer pricing system* after the Labour government held office shaped its, making the information less precise and reliable (Interview, Management Accountant, 2014). Van Helden (2001) noted that operating practices change over time due to social reasons. Unlike the prescriptions in the literature (Perera *et al.*, 2003), Alpha used two methods of transfer pricing, the Direct Cost method and the 'Whole of Service Cost' method. For the business services, the 'whole of service' method was used for transfer pricing which followed the 'market-based approach' (Guidelines for Competitive Neutrality, NSW), and documentary evidence showed that Alpha used an estimated transfer pricing scheme. Users were unhappy with this method as the inefficiencies and inaccuracies of cost estimates of the transferor departments could be included in the transfer prices, which may have adverse financial effects. Discussions concerning abandoning transfer pricing practices in their entirety were held. Empirical evidence on Government sector transfer pricing practices reports similar episodes of practice variations (Perera *et al.*, 2003).

Alpha relied on cost information *grant submission* applications, in which government fund providers expect the applicants to justify the costs, requiring the inclusion of indirect cost rates (Mohr, 2015). Alpha relied on its disbanded ABC method to estimate the costs of the services and to justify its indirect cost rates for its inclusion in the grant applications. During this new era of service provision, Alpha used different levels of cost information for decisions.

Accurate cost information reduces the subsidy burden on the government. The ALP'S policy on user charging set the scene for subsidy calculations. The directive of the Commonwealth government was to use different types of marginal costs, however, the evidence collected from Alpha revealed the use of full costs, and direct labor-based allocation of all its support costs (Internal document, 2012). Alpha recovered its costs from such user charges, based on crude estimates. The remainder was to be met from the government's subsidy budget. Alpha's position on subsidy calculations during the LNPCG era was much improved, because of the across-the-board use of ABC information and the mandatory competition and marketization regime.

With the loosening of competition and marketization policies in favor of mass production during the Labour era, as well as cost reduction through amalgamation, cost allocation lost its importance, contrary to the findings of Arcelus (1997) and Khumawala *et al.* (2005). Alpha's cost allocation practice did not provide for the scrutinization of resources, resource consumption or the comparison of service provisions. Efficiency and productivity concerns, therefore, remained within this compromised cost allocation. The evidence supports the logic of NPS that citizens' rights and access to Alpha's services were more important to the political administrators. To this end, cost information only provided the required information to justify the forced amalgamation scheme. This evidence is commensurate with the evidence in Switzerland and other countries (Steiner, 2003; Steiner & Kaiser, 2017). Through the IPART deliberations, Alpha was declared to have met the criteria of a 'fit' council that maintained the status quo of its services.

Cost management through cost information was a significant agenda in Alpha. Mohr (2015) posits that government organizations experience hardships if allocated budgets are not efficiently used to provide services. Alpha attempted to be frugal in its spending on all types of services, however, there was evidence that there were inefficiencies in the service provided. For example, different users were allowed to pay different prices for their services. The NPS also suggests that government service users have access rights to different types of services at an affordable cost, however, there is evidence of the provision for access right to waste and stormwater services as Pensioners were financially incapable to contribute to full cost recovery.

Government organizations become frugal during the time of austerity (Mohr, 2015; Williams, 2003). However, the NPS philosophy suggests that the volume and the quality of services must always be maintained. An analysis of pricing and charging during 2003-2012 revealed that the costs of services (user charges) were rising but the users happily accepted the rises (as indicated on annual customer satisfaction surveys) after a comparison with the market and input from stakeholders. Some of the written feedback suggested the users perceived Alpha's quality of services as superior to those provided by other local providers, hence, the price rise was happily accepted.

Public sector organizations measure inefficiencies of services through contracting out arrangements when in-house providers get the opportunities to compete with external providers (Coe & O'Sullivan, 1993; Geiger, 2011; Kaplan & Atkinson, 2015). Alpha used this arrangement to contract out services that had an annual budget of over two million dollars, which provided opportunities to gauge in-house efficiency. In an interview, the Manager of

one of the Corporate Support units informed Alpha's decision to use partial contracting of services instead of competitive bidding. Alpha's users happily embraced partial contracting, as they believed the prices, quality and levels were maintained and Alpha kept these services. The NPS advocates suggest that the users may choose their own providers with different rates.

Finally, cost information is useful in gauging the profitability of different types of services or client groups (Horngren *et al.*, 2015; Kaplan & Atkinson, 2015). Unlike private firms, government firms try to minimize subsidies in service provision. Alpha's analyses revealed its Waste Service was profitable while its Childcare Service was profitable after losses in some centers were adjusted. Alpha used the occupancy of childcare centers as another measure of performance for cost-effectiveness analysis.

Performance management and control are important in government organizations due to accountability and efficiency reasons. During the NPS era, public sector organizations were required to focus on both the quality and quantity of services through amalgamation and other means. Cost-effectiveness was measured in terms of scale or scope economies (Dollery *et al.*, 2007b; 2008; Drew *et al.*, 2014; 2016). As mentioned, Alpha was declared as a 'fit' council in NSW (70-73).

Though a few authors (Melkers, 2003; Premchand, 2006; Rivenbark, 2000; Williams, 2003) emphasize cost-effectiveness measures, the state of cost allocation during the Labour Party era (2003-2012) required stringent allocation rules in Business Services areas only. The presence of subsidies, against the policies on a full costing and full cost recovery, contradicted the cost-effectiveness agendas. The evidence of partial recovery of overheads through transfer prices or through user charges contradict the conjectures of prior evidence (Andrews, 2013; Dollery *et al.*, 2007a; 2008; Dollery & Crase, 2004; 2015; Steiner & Kaiser, 2017).

In order to comply with the legislative requirements, the National Competition Policy, Alpha's own Competition Policy and the agendas of the ALP, Alpha used Benchmarking practices across a range of services (Huijben *et al.*, 2014). Most users opted for Alpha's services including childcare, leisure and recreation services, waste services and occasionally public works where community involvement was preferred.

Most services in Alpha were costed imprecisely during the Labour Party era due to the forced amalgamation policy of the NPS agenda (Denhardt & Denhardt, 2000; 2007; 2015). Other than the Business services, Alpha's costs of services were based on average costs or peanut butter costing approach (Horngren *et al.*, 2015), supplemented by KPI measures (Afonso *et al.*, 2005; Bevan & Hood, 2006) which Alpha regularly published. The approval of these reports by the political representatives was an acknowledgment that Alpha met the public accountability requirements for service provisions postulated in the NPS agendas.

6. CONCLUSIONS

This study has examined how a costing system tackles the cost information needs in a politically oriented organization. Our review of prior literature on costing and cost allocation in private and public sector organizations, supplemented by the insights from the NPS philosophy, developed our understanding of the changing landscape of cost in a government organization and enhanced our understanding of the reasons for service provision through democratic participation.

We report a number of findings from this study. Political administrators listen to local citizens' input about their expected benefits from government funding, and this collaborative decision-making approach, price, access and other equity issues are given serious consideration. Cost information can also have a functional emphasis when services can be subjected to local competition since survival is based on the competitiveness of services on prices and quality. The stakeholders' objective is to recover full costs or ensure minimal subsidy in such services. However, the principles of cost information are compromised where political agendas get priority over the accuracy of cost information.

This study has contributed to the growing body of literature on government cost accounting in two different ways. Firstly, it has shown that finance managers of public sector organizations need to be well-versed in both public and private sector operating environments (Flury & Schedler, 2006; Ter Bogt, 2008) since politically-oriented organizations have both profit and philanthropic motives, and they work side-by-side. Secondly, this paper has revealed that contextually technical accounting procedures in a public sector organization (Coe & O'Sullivan, 1993; Ellwood, 1996; Levine, 1985; Mohr, 2015) require supplementary theories. The NPS explanations offered in this paper shows how the values of democratic citizenship, increased citizen participation and engagement in a contemporary government organization, have reinforced the need to prioritize service provision over the accuracy

of cost information. This new evidence enriches the extant research on cost information in public sector organization, by a case study evidence from an Australian public sector organization (Groot & Budding, 2004).

This research has several implications for different interested parties. Practitioners may benefit from the insights concerning how political agendas can change cost information. Educators and researchers may also use the insights provided to enrich their curriculum. Policymakers can use these insights to work on minimizing the differences between public and private sector organizations.

The study is a single case study of an organization that moved from an ABC-based cost allocation approach to a marginal cost approach. In order to improve the validity of the conclusions reached in the current paper, future researchers may examine the same themes from cases in other states or countries with similar government systems. Finally, the study can be replicated by using the contingency theory, agency theory and resource dependency theories (Modell, 2002).

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