

# Costing the

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*The Australian Customs Service has been a public sector leader in applying of activity-based costing to its financial planning and management practices.*

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*MICK ROCHE explains what Customs has done so far, where it is heading and how activity-based costing will help the organisation make better management decisions.*

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Customs is a large and diverse organisation with a wide range of roles and responsibilities and a workforce spread across the length and breadth of the continent. But neither its complexity, nor its size can excuse us from performing our tasks in the most cost-effective and efficient manner possible.

As an organisation we cannot afford to just do something because that is the way we have always done it. At the same time we must ensure that we do not make changes simply for the sake of change. At Customs we are using activity-based costing as a strategic tool to ensure that we put our resources - both human and financial - where they will do the most good.

Adopting an activity-based costing approach has allowed us to begin to look critically at what Customs does — in other words, how we spend our time and money and what outputs we produce. While activity-based costing is a relatively new term, it is really the application of a logical process to understand what we do and how many resources to commit to specific functions. But, its real worth will come from not just determining a cost, but balancing that cost against an outcome. This will help us to make informed management decisions on how we use resources to meet our objectives.

It is also providing us with an essential base for a whole-of-government move to accrual accounting. For some time in Customs there has been a realisation that budgeting on an historical basis was not appropriate for the challenges we faced on the doorstep of the 21st

century. Historical allocations do not reflect the changes in emphasis, shifts in workload or an accurate assessment of risks.

## Challenge to work smarter

The Commonwealth Government, in common with many others throughout the world, also wants the public sector to be more cost-effective, target resources to where they are most needed and produce outcomes in line with policy and that provide the most benefit to the community. The public sector is being challenged to work smarter and put the effort into where it will do the most good. We are being asked to get the dollar into the right place and get a dollar's worth of return for every dollar spent.

Our move to activity-based costing has required us to look at the organisation and firstly determine just what we do. This is being accomplished through the development of an activity dictionary. The dictionary, which has been developed with the assistance of staff across Customs, reflects the things we do rather than the way we are organised to do them. The dictionary originally contained 150 activities, but has been refined to about 125, and the refinement process is continuing to ensure we accurately identify all significant activities.

The dictionary provides us for the first time, with a national activity framework that does not have regional variations. Cargo examination in Hobart now means the same thing as cargo examination in Cairns.

# future

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The data we collect against the standard activities will allow us to compare ‘apples with apples’ when making management decisions.

As the dictionary reflects what we do rather than the way we are organised to do it, we have adopted a snapshot approach to collection of data relating to the dictionary. This approach cuts down on the work needed to collect data. The process would be rather self-defeating if we spent a huge amount of resources on collecting data rather than producing outcomes.

We also realised that it would be too big a task to try to catch everything at once, so we adopted a staged approach to the information being collected in the snapshots. As the bulk of Customs running costs are salary, we concentrated on this area first. We will extend the capture to include administrative and overhead costs shortly and this will provide us with an even more accurate picture of what our activities cost us. With Customs move to the use of increasingly sophisticated — and expensive — search and surveillance technology and computer-based systems in the future, it will be essential for us to have a tool to test the cost effectiveness.

## Bridging budgeting and planning

To ensure that the data obtained in the snapshots is ‘real’, a number of refining and cross-checking processes have been plugged into the system. These checks will be incorporated in new human resources and financial management systems that we are currently introducing, further enhancing the value of the information and its ability to be used in the planning and management process in the future.

As an organisation we are now much more prepared to ask ourselves: Why are we doing this? Is the way we are doing it the best way? Does it make best use of our resources? Are the resources committed to the task matched by the outcomes?

Our objective is to build bridges between budgeting and corporate planning. We are now more able to ask, and answer operational questions such as: Is what we spend on our radio communications in proportion to its importance to the organisation? Is what we spend on patrolling the waterfront in proportion to the real risk levels and results?

Are we spending enough on cargo examination in, say, Adelaide, when we take account of the risk involved?

Increasingly we will be able to ask ourselves such questions and make reasoned, valid judgements that will enable us to match resources to the risk presented and necessity of the task.

Our move to activity-based costing is making us better able to respond to questions on how resources are used. Development of the activity dictionary is also giving us the opportunity to developing benchmarking opportunities with overseas customs administrations. In the longer term we see our activity dictionary being refined to define activities that are common to many customs administrations, thus facilitating benchmarking.

Activity-based costing is providing many opportunities and challenges for Customs. It gives us a good platform from which to launch into output-based accrual accounting — the direction in which the Government is moving the whole public sector — but probably most importantly it is giving us a tool that will tell us what our activities really cost.

This information, when matched to risk analysis and the priorities of the government of the day, will enable Customs to get a dollar’s worth of value for every taxpayer dollar spent on Customs in the future.

*Mick Roche is Deputy Chief Executive Officer at Customs.*