



Ministry of Municipal Affairs & Housing



Association of Municipalities of Ontario

ONTARIO CENTRE FOR MUNICIPAL BEST PRACTICES

393 University Ave., Suite 1701, Toronto, Ontario M5G 1E6

BEST PRACTICE SUMMARY REPORT

January 2003

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Roads – Winter Control – Full Cost Accounting

Practice identification: Roads – Winter Control – Cost Accounting of Services

Case study municipality: Town of Caledon

Keywords: Performance Measurement
Financial Planning and Practices
Cost Accounting

Benefits which resulted from adoption of the Practice

- **Improved management decision making, as a result of knowing the real costs to deliver each Winter maintenance and other road service activity**
- **Foundation for informed analysis of ASD options**
- **Foundation for comparative analysis among municipalities**

Description of the Practice in the Case-study municipality:

The Town of Caledon Public Works Department uses a public works accounting process that distributes to all maintenance and capital activities not only the costs of staff, material and equipment utilized on-site, but also assigns to each activity an appropriate share of the annual costs of off-site management and clerical staff as well as office accommodation, depreciated salt/sand facilities, and equipment repair facilities. This method of accounting recognizes that these overhead costs are also required in order for the municipality to provide its direct service activities to the public, and are expressed as a percentage mark-up for every direct activity-based dollar spent. This accounting process is used as a decision-

making tool by Public Works. It is not incorporated into the Town's formal chart of accounts. The practice was initiated in Caledon in 2000.

The Town of Caledon is a primarily rural lower-tier municipality in Peel Region (pop. 933,000) that is within the GTA commutershed. It is rolling farm and forest land with a considerable number of estate lot developments as well as a number of historic villages and the Bolton settlement area. The bulk of its road system provides access from/to an extensive system of Peel Region and Provincial Arterial Roads.

Evaluation of the Practice

Efficiency

Taking explicit account of overhead costs forces managers to scrutinize departmental priorities in terms of unit accomplishment vs logistical support activities. It allows a businesslike approach to the funding of support facilities and equipment in that they are seen as revenue centres (measuring how much of a contribution they make to enabling direct public services to be provided), rather than cost centres. Use of the practice has assisted Caledon to perform Winter control activities at costs which are lower than the average per lane-kilometre for municipalities of its population size.

Effectiveness

The practice allows full cost comparisons with alternative service delivery methods, without having to make adjustments for costs which are typically "hidden" by traditional municipal accounts, such as the supervision, office processes, and built space requirements.

Statutory Requirement

The accounting approach required by the Municipal Performance Measures Reports to the Ministry of Municipal Affairs and Housing is statutory. The MPMP methodology now provides for the reporting of some activity overhead costs and is under review to include fuller attribution of the cost of equipment and fixed assets. At this time, the Caledon approach to accounting for the cost of its Public Works services was not entirely consistent with the MPMP methodology.

Replication

Full Cost accounting of Public Works activities is practiced in many of Ontario's larger municipalities. It is significant that Caledon reported depreciated material storage facilities as well as the other overhead recoveries.

All municipalities would benefit as a result of the better ability for a manager to compare the real unit costs of any Winter activity with those of his peers in other municipalities, or with those of a tender from a private contractor.

Until the methodology required by MMAH regulations requires full-cost accounting, very small municipalities may find that the benefits of better decision-making information are outweighed by the staff effort required to implement full-cost accounting of Public Works activities while simultaneously maintaining a traditional set of accounts.

Public Works and any operating departments with unit accomplishments could utilize the approach. Costs of implementation pertain to staff-time in the Public Works Department, and can be moderate if introduced over a budget cycle. Two budget cycles are needed to fine tune this practice.

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Supporting documentation is available through staff reports from Caledon.
