



# Chapter 2

## Activity Based Costing Methodology



## 2. Activity Based Costing Methodology

### 2.1 Methodology

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An Activity-Based Costing (A.B.C.) methodology, as it pertains to municipal governments, assigns service effort and associated costs from all participating Town business units to the appropriate user fee service categories. One of the service channels provided by municipalities is recreation and parks services.

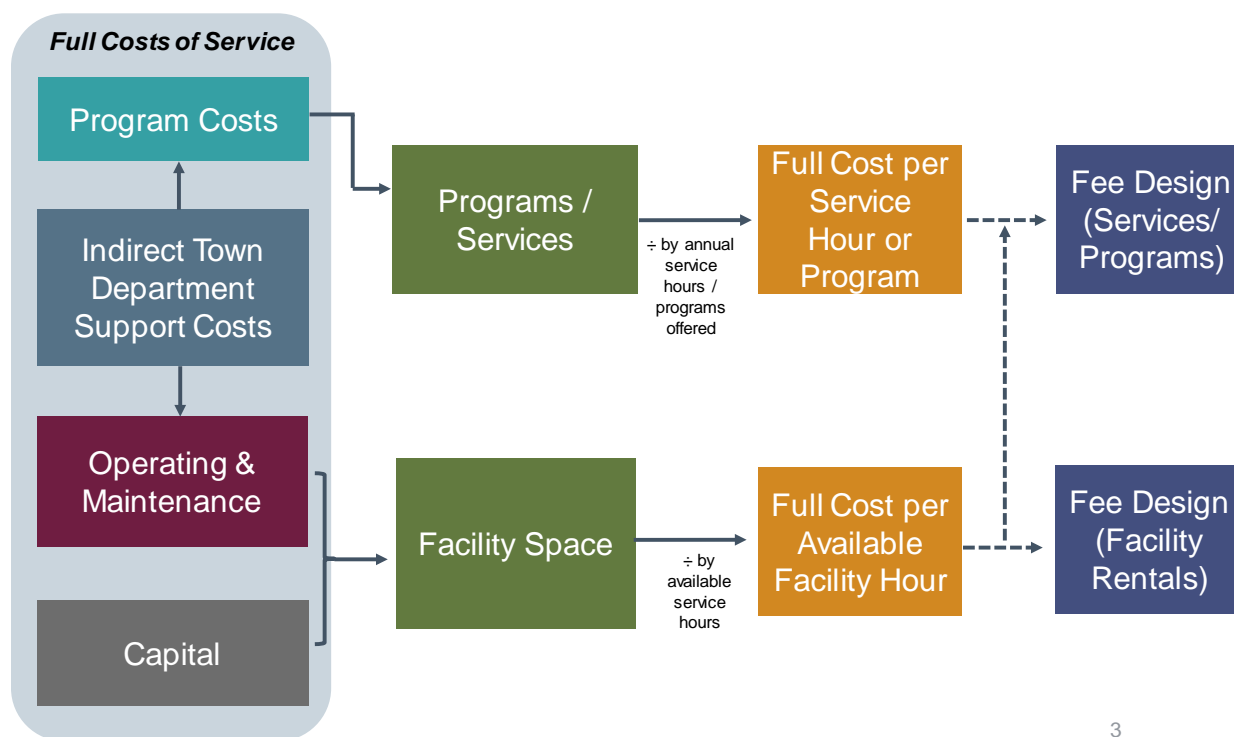
As illustrated in Figure 2-1, an A.B.C. methodology attributes effort and associated costs from all participating municipal departments to the appropriate programs and services offered by the Town. The resource costs attributed to programs and services include direct operating costs (program and operating and maintenance costs), indirect Town department support costs, and capital costs. Indirect Town department support costs are allocated to direct departments according to operational cost drivers (e.g. information technology costs allocated based on the relative share of departmental personal computers supported). Once support costs have been allocated amongst direct departments, the accumulated costs (i.e. indirect, direct, and capital costs) are then distributed across the various programs and services, based on the department's direct involvement in the delivery of services.

The assessment of each department's direct involvement in providing services was accomplished through working sessions with Town staff to understand the service areas supported by various sub-departments within the Town's recreation and parks budget. The results of employing this costing methodology provides municipalities with a better recognition of the costs utilized in delivering services, as it acknowledges not only the direct costs of resources deployed but also the operating and capital support costs required by those resources to provide services.

The following sections of this chapter review each component of the A.B.C. methodology as it pertains to the Town's Recreation & Parks Rates and Fees Strategy.



Figure 2-1  
Activity Based Costing Conceptual Cost Flow Diagram



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## 2.2 User Fee Category Definition

A critical component of the full cost fees review is the selection of the recreation and parks costing categories. This is an important first step as the subsequent costing is based on these categorization decisions. These categorization decisions will allow for the full cost of service to be assessed. The costs include the direct costs of designing and delivering programs and the costs of operating and maintaining the capital assets (e.g. facilities) the programs are provided through, as well as other indirect and capital replacement costs.

The fee categorization process occurred at that outset of the assignment through working sessions with Town staff. These working sessions were attended by representatives from the Town's recreation and parks service channels. Each individual service or facility or components of facilities were costed individually. These services were then grouped into the following categories for reporting and communication in the public engagement strategy:



- **Fitness Classes**
  - Aqua Fitness
  - Fitness Classes
- **Sports Instruction**
  - Private Swim Lessons
  - Semi-Private Swim Lessons
  - Dance
  - Recreational Sports
- **Health and Wellness**
- **Leadership and Certification Programs**
  - Advanced Lifesaving
  - First Aid
  - Halton Hills Lifeguard Club
- **Facility Rentals (Including Sports fields)**
  - Ice Rentals
  - Floor Rentals
  - Pool Rentals
  - Meeting Rooms
  - Halls (Including the Halton Hills Cultural Centre)
  - Other Facility Space
  - Ball Diamonds
  - Sports fields
  - Parks
- **Camp Programs**
- **Aquatic Instructions**
  - Group Learn to Swim Lessons
- **Drop-In Programs**
  - Public Skating
  - Public Swimming
- **Miscellaneous Programs**

## 2.3 Direct Costs

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Sub-departments within the Town's recreation and parks budget were categorized as either indirect support costs where the costs support a range of programs or facilities

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(e.g. Recreation and Parks Admin), or direct service sub-departments where the programs or facilities associated with the budget sub department can be identified (e.g. Gellert Community Centre Programs). Indirect recreation and parks costs were then allocated to direct service sub departments based on drivers of cost established through review with Town staff.

Total costs (including indirect recreation and parks costs) refer to the direct costs of providing programs and services as well as operating and maintaining capital assets used to provide services (e.g. facilities), indirect Town department support costs, and capital replacement costs.

The design and detail of the Town's 2019 Operating Budget allowed for the direct programming costs and operating and maintenance costs to be closely aligned with each of the individual services being provided.

### Program Costs

Once budget sub-departments had been aligned to program and services, costs were first allocated based on the relative share of program hours, and further adjusted based on the intensity of staff involvement between types of service offered and where operating budget cost objects allowed for a more detailed assignment of costs (e.g. "1171 PT Wages – Aquafit" allocated to Aquafit programs only.) The resulting per hour costs of programming were then reviewed by staff for reasonableness with further adjustments being required to reflect actual delivery of service.

### Operating and Maintenance Costs

Operating and Maintenance costs are budgeted separately for each Town facility. These costs were then allocated to the programmable components of each facility (e.g. pools, arena, community spaces) based on the share of annual facility space utilized and the relative operating and maintenance costs per square foot (sq.ft.) provided by staff. This approach allows for a greater share of operating and maintenance costs to be allocated to facility spaces driving a greater share of those costs (e.g. pools vs. community spaces).



## 2.4 Indirect Cost Functions and Cost Drivers

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An A.B.C. review includes both the direct service cost of providing service activities as well as the indirect support costs that allow direct service departments to perform these functions. The method of allocation employed in this analysis is referred to as a step-down costing approach. Under this approach, support function and general corporate overhead functions are classified separate from direct service delivery departments. These indirect cost functions are then allocated to direct service delivery departments based on a set of cost drivers, which subsequently flow to user fee costing categories based on the allocation of direct costs described in Section 2.3. Cost drivers are a unit of service that best represent the consumption patterns of indirect support and corporate overhead services by direct service delivery departments. As such, the relative share of a cost driver (units of service consumed) for a direct department determines the relative share of support/corporate overhead costs attributed to that direct service department. An example of a cost driver commonly used to allocate information technology support costs would be a department's share of supported personal computers. Cost drivers are used for allocation purposes acknowledging that these departments do not typically participate directly in the provision of a service, but that their efforts facilitate services being provided by the Town's direct departments.

The indirect support and corporate overhead cost drivers used in the fees model was first developed for the Town's 2017 Planning Application User Fee Review and reflects accepted practices within the municipal sector by municipalities of similar characteristics.

## 2.5 Capital Costs

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The inclusion of capital costs within the full cost calculations follows a methodology similar to indirect costs. The annual replacement value of assets commonly utilized to provide direct department services has been included to reflect capital costs of service. The replacement value approach determines the annual asset replacement value over the expected useful life of the respective assets. This reflects the annual depreciation of the asset over its useful life based on current asset replacement values using a sinking fund approach. This annuity is then allocated across to the components of the capital assets to be incorporated in the calculation of the full cost of service (programs provided through capital assets or facility rentals).



Asset replacement costs and useful life estimates have been taken from the Town's ongoing Asset Management Plan and 2017 Development Charges Background Study.