



Transparent Costing: Has the emperor got clothes?

Janek Ratnatunga*, Erwin Waldmann

University of South Australia, Australia

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ABSTRACT

Transparent Costing (TC) is a framework for determining the full indirect costs and thereby the full costs (FC) of *Australian Competitive Grant* (ACG) research projects; with the objective of ensuring the full funding of these projects by the government, so that they could be sustained in the long-run, and preventing their cross-subsidisation from other revenue sources. If a university wishes to be fully funded for its AGC research projects, it is mandatory to undertake a TC exercise and allocate the indirect costs of research activities. It was found in this study that whilst the objectives of FC appear worthwhile, FC may not prevent the practice of cross subsidisation. Also whilst it was found that *Time-Driven Activity-Based Costing* (TDABC) is preferable to ABC in the TC modelling of 'research only' departments and institutes; both approaches do not provide accurate information in 'teaching and research' departments. In these departments more accurate estimations could be obtained from studying the workload allocation methods and conducting direct interviews of the staff undertaking research on ACG and other externally funded grants.

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1. Introduction

Transparent Costing (TC) is a framework for determining the indirect costs associated with *Australian Competitive Grants* (ACGs) research. It is a key platform of the *Sustainable Research Excellence* (SRE) program introduced by the Australian Government, and is in addition to the direct funding provided through the *Research Infrastructure Block Grant* (RIBG) scheme. Essentially, TC aims to quantify the indirect costs of ACG research in order to obtain a clearer picture of the potential shortfall in the full cost of research funding provided by the Australian Government. Both SRE and TC fall within the wider area of *New Public Management* (NPM) in which public bodies such as universities need to become more concerned with public accountability and transparency in their research efforts and outcomes, especially if they are funded by the public (see Demirag & Khadaroo, 2008; Demirag & Khadaroo, in press).

However, in the case of *Public Sector Accrual Accounting* (PSAA), there has increasingly been recognition that Governments have fundamentally different roles to those enterprises in the private sector, and therefore the direct translation of the private sector model is not the right answer. For example, governments generally acquire assets to provide service potential rather

* Corresponding author at: School of Commerce, University of South Australia, City West Campus, GPO Box 2471, Adelaide, South Australia 5001, Australia.

E-mail address: janek.ratnatunga@unisa.edu.au (J. Ratnatunga).

than to generate future cash flows, and have a range of social obligations beyond those of private sector entities. Guthrie, Humphrey, Jones, and Olson (2005) in a review of international *New Public Financial Management* (NPFM) reforms noted that observations of actual outcomes of the NPFM change processes (including accrual accounting) have been limited to those made by the initiators themselves, while formal independent studies of public sector change impact have been rare. Barton (2004) claimed that the present mode of presentation of the accrual budgets and financial statements of Australian Government departments has become a controversial matter and that it has led to widespread dissatisfaction in Parliament and parts of the Public Service. In fact, Barton (2007) recommends that the *Cash Accounting and Budgeting System* (CABS) be reintroduced for more appropriate fiscal policy determination.

In the case of workplace reform, the introduction of NPM has been similarly problematic, with the reality for many public service workers being greater workloads, increased job-related stress and reduced job security; and with the increasing emphasis on NPM reforms more likely to promote conflict, distrust and dissatisfaction at the workplace (Fox, 1974; Hood, 1989; Pollitt, 1993; Wright, 1995). The question therefore arises if the introduction of NPM approaches to cost management in the university research funding area would be similarly flawed, with the outcomes being divergent to the stated objectives of the reform policies.

The objective of this paper is to determine if the proposed TC framework will accurately enable the 'full-cost of research' to be determined so that research costs be fully funded by government organisations; and if not, to determine if there are more relevant alternative cost allocation models available. As such, the discussion will be focusing on three research questions: (1) Will a 'full-costing of research' model meet its stated objectives? (2) Will the TC exercise be able to provide accurate indirect cost information from a cost-benefit viewpoint? (3) Are there alternative models to TC that would better meet the objectives of the allocation exercise? This is an important timely issue, not only because it is an area of much concern to research academics and university administrators who are grappling with the issue of cross-subsidising research projects from other revenue sources (e.g. teaching income) in order to prevent them from being abandoned; but also because at stake is access to \$300 million of government sponsored research funding annually in Australia.

Information about all of the above funding programs of the Australian government can be found on the website of the *Department of Innovation, Industry, Science and Research* (DIISR). On this site, it is stated that the dual objectives of the SRE program are to: (1) help address an identified shortfall in the funding available to meet the indirect costs associated with ACG research; and (2) support universities to build and maintain research excellence through the implementation of best practice financial management, performance and reporting frameworks. The first of these objectives reflects a need for additional support to universities to meet the project related infrastructure costs associated with ACG research and enhance the development and support of university research infrastructure more broadly. The second objective, referred to as *Excellence in Research for Australia* (ERA), distinguishes SRE from the RIBG and other research block grant programs, and recognises that achieving research excellence on a sustainable basis is dependent on a university's capacity to strategically manage its resources to meet the costs associated with research activities. It also recognises a need for mechanisms and incentives to support universities to stretch their research performance over time (DIISR, 2010).

From 2013 the SRE will be worth approximately \$300 million annually, spread across the national sector. DIISR guidelines indicate that the SRE is divided into three elements: Base, Threshold 1 and Threshold 2. To access Thresholds 1 and 2, which contain 80% of the funding; universities have to take part in the Excellence in Research for Australia (ERA) initiative and the 2010 trial of TC. All 41 eligible Higher Education Providers have agreed to participate in TC and ERA (DIISR, 2010). In this regard the paper continues with some background & theoretical framing issues. Section three presents the argument for a full costing model. Section four overviews the models of indirect research cost allocation found globally. Section five presents the TC framework while section six overviews the competing activity based cost allocation models. The seventh section explores a Transparent Costing case study from an Australian university. The final section offers some reflections and conclusions.

2. Background & theoretical framing

The NPM approach focuses on the introduction of private sector management practices into the public sector, especially in the areas of cost management, funding allocation and performance evaluation. The analysis and critique in this article is motivated by a drive to understand the effects and ramifications of new costing models on university funding. Furthermore, Ferlie, Ashburner, Fitzgerald, and Pettigrew (1996) identified four distinctive NPM models: (1) 'The Efficiency Model', which involves the introduction of private sector management practices into the public sector with an emphasis on increased financial controls and the monitoring of performance; (2) 'The Downsizing and Decentralisation Model', which involves reducing workforce numbers, decentralisation of financial budgets and contracting-out; (3) 'The Excellence Model', which focuses on changing the organisational culture of the public sector; and (4) 'The Public Service Orientation Model', which seeks to seamlessly combine a range of public and private sector management approaches. The SRE program incorporates aspects of all four NPM models (see Guthrie et al. (2005)).

Over the last two decades, NPM programs and practices have become increasingly dominant in the Australian public sector at State and Federal levels (Armstrong, 1998; Halligan, 1994; Laffin, 1995). The first of these was *Public Sector Accrual Accounting* (PSAA), introduced in the New South Wales State government in 1988. The reasons given for introducing such practices are that it: (1) enables the measuring of performance; (2) empowers public sector managers with relevant infor-

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