

ANNEX (to Decision 535)

Cost-allocation methodology within the framework of results-based budgeting

Introduction

1 In line with the recommendation of the Group of Specialists (Resolution 1210, Annex 1), the current cost-allocation methodology has been reviewed so that the costs of individual ITU outputs and activities are transparent and auditable. The main objective is that cost accounting shall efficiently support the development of an accurate activities-based budget, by generating comprehensive financial and management information, by tracking the costs incurred by the Union in performing specific activities under cost recovery, and by providing a tool for budget control and accountability for decentralized appropriations. The box below gives an overview of the objectives and certain characteristics of the methodology within the overall results-based budgeting (RBB) framework.

- a) Improved cost transparency and auditability throughout the organization, thanks to clear cost object structures and allocation techniques.
- b) Clearly defined responsibilities for cost planning and control through well-defined cost-centre, activity and output structures.
- c) Long-term establishment of an organization based on service level agreements with defined or calculated prices per activity unit.
- d) Greater acceptance of allocation results thanks to a significant increase in the proportion of direct costs allocated by time and/or volume.
- e) More effective evaluation of performance by means of parallel cost-benefit analysis based on pre-defined key performance indicators for each activity and output.
- f) Improved cost tracking and monitoring through step-by-step cost allocation and analysis (drill-down).

2 With regard to the specific terminology relating to results-based budgeting and/or cost accounting, please refer to the glossary of terms in Annex 4 to Document C05/10. Further, the list of outputs and activities relevant to the draft budget for 2006-2007 can be consulted at:

www.itu.int/council/FinRegs/Act-Out-090305.xls.

List of outputs and activities of the ITU.

Cost-allocation methodology

3 The cost-allocation methodology presented in this document is an important component of the overall methodical approach. The diagram below gives a high-level overview of the cornerstones of the approach.

4 The cost centre constitutes the basis for both cost allocation and performance evaluation. A cost centre is the smallest organizational and operational unit where costs can be planned and controlled. A cost centre has responsibility for one or more activities. The costs readily identifiable with these activities are referred to as primary costs. In addition, a cost centre consumes services provided by other cost centres (e.g. IS services). These costs are referred to as secondary costs, since they are not directly linked with the cost centre, but are necessary in order for the cost centre to perform its activities.