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Albury City Council

Corporate Overhead Analysis

Report by Forest Accountability

On behalf of

review today
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Table of Contents

Introduction.....	3
Council on the Cost and Quality of Government (CCQG)	3
Definition of Corporate Overheads.....	4
What is a corporate overhead analysis and why is it important?.....	5
Summary of Key steps and tasks undertaken in Albury Council’s Corporate Overheads analysis (based on CCQG’s Corporate Overheads Costing Guide).....	6
Step 1 – Analysis of Business Units	7
Step 2 – Analysis of Staffing by Function.....	9
Step 3 – Calculation of Corporate Overheads Staff Ratio.....	10
Step 4 – Analysis of Employee Related Expenses	11
Step 5 – Analysis of Working Expenses.....	15
Step 6 – Calculation of Corporate Overheads Expense Ratio	18
Step 7 – Results and Conclusions	20
Corporate Overhead Expense Ratio Benchmarks.....	20
Summary of Albury Council Corporate Overheads Ratios	20

Introduction

Located on Australia's main transport corridor midway between Sydney and Melbourne, Albury City is NSW's second largest inland regional city home to approximately 46,500 people and covering an area of 332 square kilometres. Albury City Council controls assets of approximately \$690 million with an annual budget of \$80.5 million (expenses of \$74 million from continuing operations)¹. The council had 434.7 FTE's (full-time equivalent employees) at the beginning of July 2007.

Council on the Cost and Quality of Government (CCQG)

The Council on the Cost and Quality of Government (CCQG) was established in the 1990's to advise the New South Wales Government on improving the quality and value of government services. Through the *Public Sector Employment and Management Act 2002* the CCQG subsequently became a non-statutory advisory board in September 2002. Its main services were listed as ;

- To review and report on the performance of general government portfolios, agencies or divisions,
- To review and report on the performance of particular cross-portfolio activities of the general government sector,
- To produce and promote best-practice management manuals and guides for the NSW general government sector ²

The Council on the Cost and Quality of Government was disbanded in 2007 and replaced by the new Performance Review Unit in the Department of Premier and Cabinet (DPC) The Performance Review Unit now has the responsibility for undertaking agency/program review functions and developing sector wide management improvement strategies.

Much of the work undertaken for this Report relied on the *Corporate Overheads Costing Guide*, part of a series of Better Management Practices developed by CCQG

¹ Albury City annual report :: 2006-07 p.34

² Council on the Cost and Quality of Government *Annual Report 2006* p.3

to assist government agencies in providing consistent costing data ³. Another important tool used in the preparation of this report was the Position Coding Guidelines, developed by the Premier’s Department Public Employment Office.

Definition of Corporate Overheads

This report adopts the CCQG definition of Corporate Overheads which are defined as the internal infrastructure that supports agencies (local governments) in delivering their core services to the community. CCQG states that corporate overheads comprise seven functions;

- Governance and executive services
- Asset and facilities management
- Financial management
- Human resources management
- Records and information management
- Information technology and communications
- Office services and procurement
- Legal services.

The Table below lists the types of activities involved in each corporate overhead function⁴

Corporate Overhead Functions	Service Functions in Position Coding
1 Governance & Executive Services	11 Planning 12 Reporting 13 Governance – general 14 External relations 15 Senior executive support 16 FOI
2 Asset and Facilities Management	21 Transport / fleet management 22 Accommodation & property management 23 IT asset management 24 Asset management – general

³ Council on the Cost and Quality of Government *Better Management Practices – Corporate Overheads Costing Guide* p.1

⁴ Council on the Cost and Quality of Government *Better Management Practices – Corporate Overheads Costing Guide* Appendix 1 p.56

3 Financial Management	31 Accounts 32 Financial accounting and reporting 33 Management accounting 34 External financial reporting 35 System accounting & finance system administration 36 Payroll 37 Finance – general
4 Human Resources Management	40 Personnel 41 Payroll 42 Recruitment 43 Staff development & performance management 44 Industrial relations, employee relations & social justice 45 Occupational health & safety 46 Workforce planning & Organisation development 47 Establishments 48 HR systems administration 49 HR – general
5 Records & Information Management	51 Records administration 52 Records management / development 53 Records systems administration 54 Library
6 Information Technology & Communications	60 IT client support services / desktop support 61 Business systems and consultancy 62 Communications / networks 63 Corporate systems support 64 Systems development 65 Database administration 66 Contract & relationship management 67 IT training 68 IC&T – General
7 Office Services & Procurement	71 Clerical services 72 Administrative services 73 Office services – general
81 Legal services	

What is a corporate overhead analysis and why is it important?

The corporate overhead expense ratio is the ratio of expenses incurred on internal overhead functions divided by total Council operational expenses. The ratio can be a useful indicator of the efficiency of a Council by calculating the share of Council staffing and expenses devoted to back-office activities rather than frontline services. Generally, the lower the corporate overheads the more efficiently the council is being run. Poor cost management tends to result in the back office absorbing a larger share of an organisations resources than warranted

Corporate overhead analysis can help organisations plan and monitor their activities and provides a foundation for important managerial decisions to be made. A well run organisation, for example keeps its corporate-wide support services (such as accounting, financial transaction processing, procurement, IT etc) relatively lean so that it can concentrate its scarce resources on serving clients.

The costing of corporate overheads, however, is complicated due to the fact that some jobs or positions may only partially involve a corporate overheads function. The main processes of the *Corporate Overheads Costing Guide* required to determine the right proportion of a position devoted to corporate overheads and the appropriate cost of those resources are :

- Calculating the FTE's devoted to corporate overhead activities in the council
- Calculating the employee-related expenses attached to the corporate overhead activities of these FTE's
- Calculating the working expenses for these corporate overhead activities⁵.

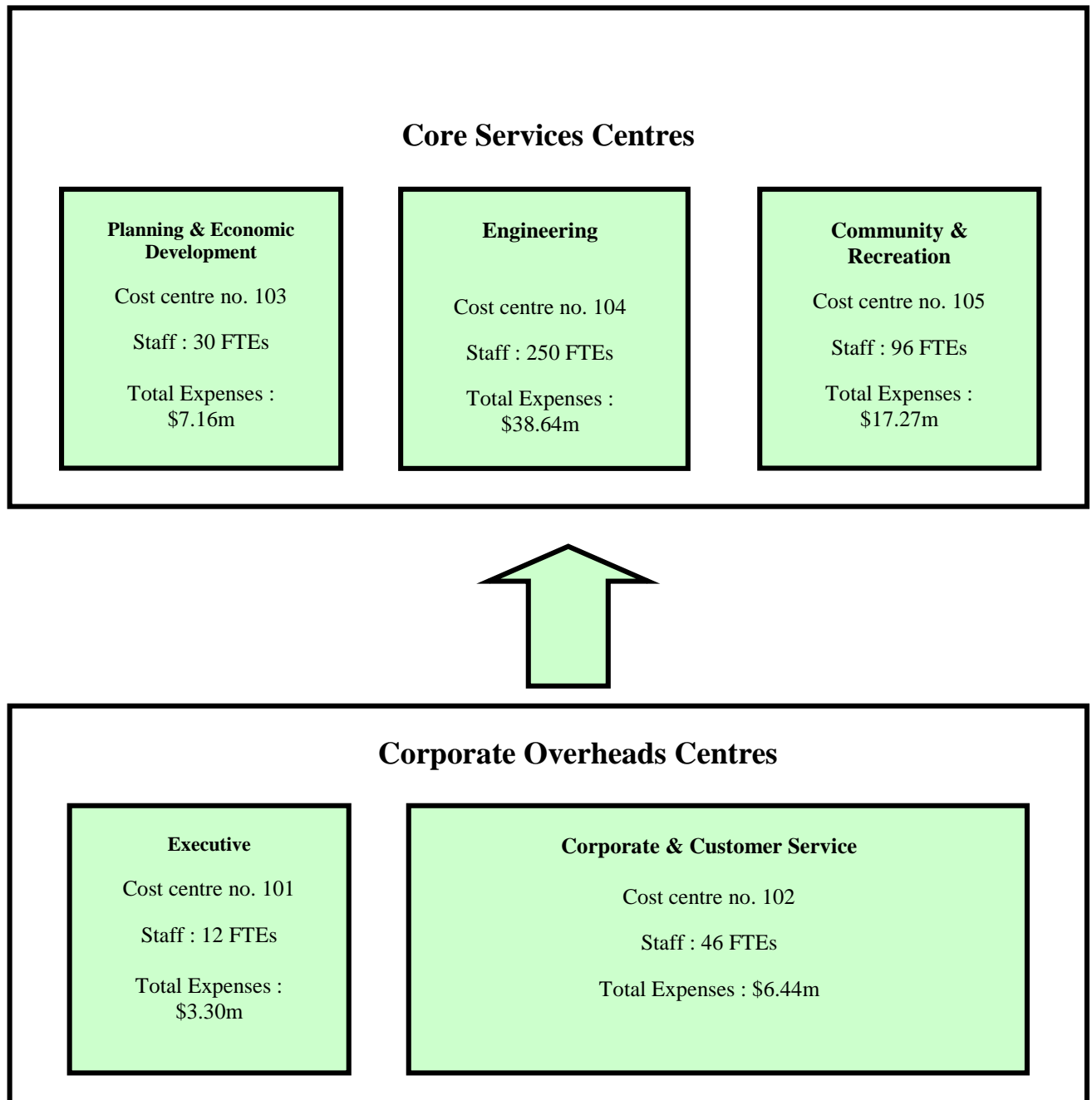
Summary of Key steps and tasks undertaken in Albury Council's Corporate Overheads analysis (based on CCQG's Corporate Overheads Costing Guide)

	Steps	Tasks	Description
1	Analyse Business Units	1.1	Analyse the structure and function of business units.
		1.2	Map the cost centre structure, FTEs, expenses and the relationships between business units.
2	Analyse Staffing by Function	2.1	Identify the number of FTEs undertaking particular functions using WFP position coding and council data.
3	Calculate Corporate Overheads Staffing Ratio	3.1	Calculate the ratio of FTE staff involved in corporate overhead functions to total council FTEs.
4	Analyse Employee-Related Expenses	4.1	Identify employee-related expenses associated with each function .
		4.2	Calculate the proportion of Total Gross Earnings associated with each function.
		4.3	Calculate the proportion of employee-related expenses related to particular functions (from Step 2).
5	Analyse Working Expenses	5.1	Identify working expenses associated with corporate overheads functions. Adjust to ensure working expenses include recurrent operational expenditure and give consideration to council-wide expenses that are centrally recorded.
		5.2	Calculate working expenses related to corporate overheads.
6	Calculate Corporate Overheads Expense Ratio	6.1	Calculate the council's corporate overheads expense ratio.
7	Results and Conclusions	7.1	Compare the corporate overhead expense ratio to benchmarks developed by CCQG and draw conclusions.

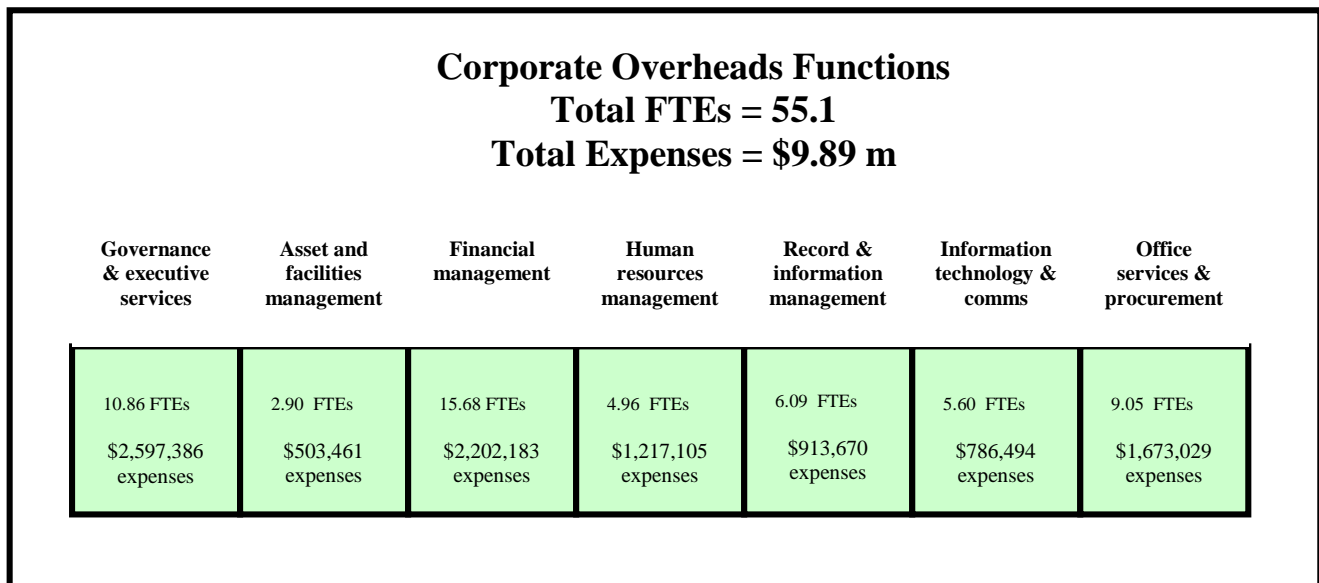
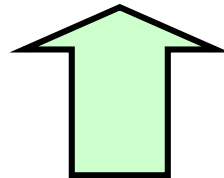
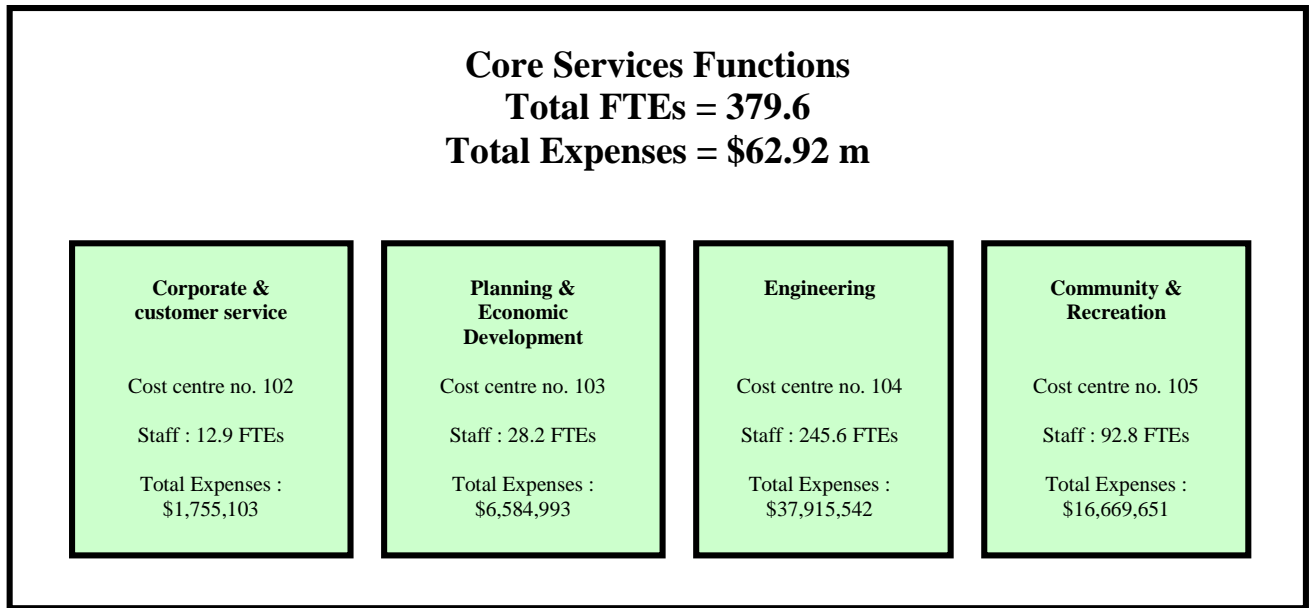
⁵ Council on the Cost and Quality of Government *Better Management Practices – Corporate Overheads Costing Guide* p.5

Step 1 – Analysis of Business Units

Organisation Overview by Cost Centre



Organisational Overview by Function



One staff member on maternity leave was excluded from the list and 10 casual employees with minimal wages were amalgamated into 0.03 FTEs.

Across Albury Council a total of 434.7 FTE's were recorded on July 1st 2007.

Step 3 – Calculation of Corporate Overheads Staff Ratio

The staff ratio indicates the extent of the council's staff resources involved in corporate overheads functions. (For the purposes of this report, external corporate overheads were not applicable. In addition as there was no dedicated ancillary cost centre, core and ancillary services are grouped together.)

Template 3 Total FTEs* by Cost Centre and Functional Category by No. & %

	Core/ ancillary services	Corporate overheads internal	Total
Number of FTEs			
Cost centre no.101 - Executive		12.14	12.14
Cost centre no.102 - Corporate & Customer Service	12.93	33.38	46.31
Cost centre no.103 - Planning & Economic Development	28.24	2	30.24
Cost centre no.104 - Engineering	245.6	4.59	250.19
Cost centre no.105 - Community & Recreation	92.8	3.03	95.83
Total	379.57	55.14	434.71

	Core/ ancillary services	Corporate overheads internal	Total
Percentage of Cost Centre FTEs by Function			
Cost centre no.101 - Executive		100%	100%
Cost centre no.102 - Corporate & Customer Service	27.9%	72.1%	100%

Cost centre no.103 - Planning & Economic Development	93.4%	6.6%	100%
Cost centre no.104 - Engineering	98.2%	1.8%	100%
Cost centre no.105 - Community & Recreation	96.8%	3.2%	100%
Total	87.3%	12.7%	100%

Corporate Overheads Staff Ratio [C]

Number of FTEs involved in corporate overheads function [A]	55.1
Total Number of FTEs in agency [B]	434.7
==> Corporate overheads staff ratio [C = A / B]	12.7%

Step 4 – Analysis of Employee Related Expenses

The aim of this step is to identify the level of employee-related expenses attributable to the Core/Ancillary Services and Corporate Overhead Internal Functions for each cost centre and for the council as a whole.

All Total Gross Earnings (TGE) data have been calculated from historical 2006/07 payroll data supplied by the Human Resources Team. All Employee-Related Expenses (ERE) data are based on information from the 2007/08 Operating Budget provided by the Finance Team

Task 4.1

Data drawn from the 2007/2008 Operating Budget.

Some salaries and wages amounts were recorded under working expense codes in the operational budget. The exact figure of salary and wages recorded under working expense codes was unavailable so this report has estimated the amount of salaries and wages to extract from working expenses codes as the actual amount of salaries and wages recorded under each code in the 2006/2007 year. (Data used in Steps 1 – 3 above.)

Data from all employee expenses codes was then summarised into Template 4.1a below. No adjustments were required to the employment related expenses for centrally recorded amounts.

The Salaries and Wages figures include salaries and wages of permanent and casual staff (including amounts extracted from working expense accounts) as well as annual leave. This estimated budgeted Salaries and Wages figure of \$20.9M was in line with the salaries and wages paid in 2006/2007 (\$20.5M).

The total employee related expenses were \$25.4M. The percentage due to each of the cost centres was as follows: Executive 5.6%, Customer & Corporate Services 11.1%, Planning and Economic Development 8.2%, Engineering 48.3%, and Community & Recreation 26.9%.

Template 4.1 Employee Related Expenses by Cost Centre

	Salaries & Wages	Sick Leave	Workers Comp Premium	Fringe Benefits Tax	Payroll Tax	Super	Long Service Leave	Total Employee Related Expenses
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost centre no.101 – Executive	1,233	20	45	0	0	85	32	1,414
Cost centre no.102 - Corporate & Customer Service	2,402	51	115	4	0	194	63	2,829
Cost centre no.103 - Planning & Economic Development	1,763	39	89	0	0	141	48	2,080
Cost centre no.104 - Engineering	9,533	271	657	140	199	1,054	426	12,280
Cost centre no.105 - Community & Recreation	6,006	92	230	0	0	379	121	6,829
Total	20,937	473	1,137	144	199	1,852	690	25,432

Note that the council has only budgeted fringe benefits for the Corporate & Customer Service and Engineering cost centres, and that the council has advised that it is only obliged to pay payroll tax for the Engineering cost centre.

Task 4.2

The Total Gross Earnings (TGEs) associated with each cost centre and function was calculated based on the historical payroll data from the 2006/2007 financial year.

Template 4.2 Total Gross Earnings by Cost Centre and Function

	Core / Ancillary Services	Corporate Overheads	Total
	\$'000	\$'000	\$'000
Cost centre no.101 - Executive	0	888	888
Cost centre no.102 - Corporate & Customer Service	558	1,478	2,036
Cost centre no.103 - Planning & Economic Development	1,293	168	1,461
Cost centre no.104 - Engineering	11,740	278	12,018
Cost centre no.105 - Community & Recreation	4,138	205	4,343

Template 4.2a Proportion of Total Gross Earnings by Function for Each Cost Centre

	Core / Ancillary Services	Corporate Overheads	Total
	\$'000	\$'000	\$'000
Cost centre no.101 - Executive	0%	100%	100%
Cost centre no.102 - Corporate & Customer Service	27%	73%	100%
Cost centre no.103 - Planning & Economic Development	89%	11%	100%
Cost centre no.104 - Engineering	98%	2%	100%
Cost centre no.105 - Community & Recreation	95%	5%	100%

The proportion of Total Gross Earnings associated with Corporate Overheads ranged from 100% for the Executive cost centre down to 2% for the Engineering cost centre.

Task 4.3

The Total Employee Related Expenses for each cost centre in Template 4.1 were then allocated to the Core/Ancillary Services and Corporate Overhead Functions according to the proportion of Total Gross Earnings accounted for by the functions in each cost centre as presented in Template 4.2a.

Template 4.3	Employee Related Expenses by Cost Centre and Function		
	Core/ Ancillary Services	Corporate Overheads	Total
Cost centre no.101 - Executive			
~ % of Total Gross Earnings	0%	100%	100%
~ ERE allocation based on TGE % (\$'000)	0	1,414	1,414
Cost centre no.102 - Corporate & Customer Service			
~ % of Total Gross Earnings	27%	73%	100%
~ ERE allocation based on TGE % (\$'000)	776	2,053	2,829
Cost centre no.103 - Planning & Economic Develop.			
~ % of Total Gross Earnings	89%	11%	100%
~ ERE allocation based on TGE % (\$'000)	1,841	239	2,080
Cost centre no.104 - Engineering			
~ % of Total Gross Earnings	98%	2%	100%
~ ERE allocation based on TGE % (\$'000)	11,996	284	12,280
Cost centre no.105 - Community & Recreation			
~ % of Total Gross Earnings	95%	5%	100%
~ ERE allocation based on TGE % (\$'000)	6,506	322	6,829
Total Employee-Related Expenses Allocated (\$'000)	21,119	4,313	25,432
Percent Breakdown by Function	83%	17%	100%

Overall, 83% of employee-related expenses were attributed to Core/Ancillary Services while 17% were attributed to Corporate Overhead Internal.

Step 5 – Analysis of Working Expenses

The aim of this step is to identify working expenses associated with corporate overhead functions.

Task 5.1

The data for this section was drawn from Albury Council's 2007/2008 Operating Budget.

Depreciation of community owned infrastructure such as roads and buildings was excluded as recommended by the Corporate Overheads Costing Guide⁶. In addition, internal charges and overhead absorption amounts were excluded as these amounts were not always assigned in the budget to cost centres that had incurred the expense.

Some working expenses were centrally recorded. For example, the electricity expense for all buildings owned by the Engineering cost centre, including buildings occupied by other cost centres, was recorded under Engineering. The Corporate Overheads Costing Guide recommends that ideally centrally recorded expenses should be allocated across the relevant cost centres using appropriate cost drivers. Due to the complexity of the accounts and the limited time frame available for this report, however, centrally recorded costs were left in their original cost centres. It is believed, however, that for the most part, distribution of such expenses would not result in a change of function and would therefore have little impact on the overall result.

Template 5.1 overleaf presents the budgeted working expenses for each cost centre, including centrally recorded expenses. In total, working expenses (excluding employee related expenses) amounted to \$47.4M. The percentage due to each of the cost centres was as follows: Executive 4.0%, Customer & Corporate Services 7.6%, Planning and Economic Development 10.7%, Engineering 55.6%, and Community & Recreation 22.0%.

⁶ Council on the Cost and Quality of Government *Better Management Practices – Corporate Overheads Costing Guide* p.17

Task 5.2

For each cost centre, the working expenses in Template 5.1 were then allocated to the Core/Ancillary Services and Corporate Overhead Internal functions. For the Corporate & Customer Services cost centre, Advertising & Promotion and Auditor's Remuneration were allocated in their entirety to Corporate Overheads. For the Engineering and Community & Recreation cost centres, Contractors & Consultants were allocated wholly to Core/Ancillary Services. All other expenses were allocated to the two functions within cost centre in proportion to the distribution of FTEs in each cost centre (as presented in Template 2.1).

The final distribution of working expenses by cost centre and function is presented in Template 5.2. Overall, 12% of working expenses were allocated to the Corporate Overheads function, while 88% were allocated to Core/Ancillary Services.

Template 5.2 Working Expenses by Cost Centre and Function

	Core/ Ancillary Services	Corporate Overheads	Total
	\$'000	\$'000	\$'000
Cost centre no.101 – Executive	0	1,890	1,890
Cost centre no.102 – Corporate & Customer Service	979	2,635	3,614
Cost centre no.103 – Planning & Economic Development	4,744	336	5,080
Cost centre no.104 – Engineering	25,920	440	26,360
Cost centre no.105 – Community & Recreation	10,163	280	10,443
Total	41,806	5,580	47,386
Percent Breakdown by Function	88%	12%	100%

Template 5.1 Working Expenses by Cost Centre

	Adv & Prom \$'000	Audi- tor's Remun \$'000	Con- tract/ Consult \$'000	Cour- iers \$'000	Elec- tricity \$'000	Insur- ance \$'000	Op lease \$'000	Rent \$'000	Phone \$'000	Travel \$'000	Other Op Exp \$'000	Main- tain- ance \$'000	Deprec- iation \$'000	Grants & Subs \$'000	Borrow- ing Costs \$'000	Total \$'000
Cost centre no.101 - Executive	304	0	45	0	0	0	0	0	2	108	1,370	26	0	35	0	1,890
Cost centre no.102 - Corporate & Customer Service	9	98	125	2	0	228	478	0	306	26	1,775	56	317	194	0	3,614
Cost centre no.103 - Planning & Economic Development	285	0	212	0	1	0	0	0	21	33	3,809	2	0	472	245	5,080
Cost centre no.104 - Engineering	133	0	2,383	96	3,413	641	336	63	268	86	7,951	7,278	1,908	518	1,287	26,360
Cost centre no.105 - Community & Recreation	270	0	1,585	8	549	6	0	20	68	223	2,707	3,594	140	744	529	10,443
Total	1,000	98	4,350	106	3,962	875	814	83	665	475	17,613	10,957	2,365	1,963	2,061	47,386

Step 6 – Calculation of Corporate Overheads Expense Ratio

The aim of this step is to calculate the council's corporate overheads expense ratio.

Template 6.1 amalgamates the employee-related expenses presented in Template 4.3 and the working expenses presented in Template 5.2 to obtain total expenses for each cost centre by function. Council wide expenses by function, summed over cost centres, are also presented in this Template.

Template 6.1 Total Expenses by Cost Centre and Function

	Core/ Ancillary Services	Corporate Overheads	Total
Cost centre no.101 - Executive			
- employee related expenses	0	1,414	1,414
- working expenses	0	1,890	1,890
Total expenses	0	3,304	3,304
Cost centre no.102 - Corporate & Customer Service			
- employee related expenses	776	2,053	2,829
- working expenses	979	2,635	3,614
Total expenses	1,755	4,688	6,443
Cost centre no.103 - Planning & Economic Develop.			
- employee related expenses	1,841	239	2,080
- working expenses	4,744	336	5,080
Total expenses	6,585	575	7,160
Cost centre no.104 - Engineering			
- employee related expenses	11,996	284	12,280
- working expenses	25,920	440	26,360
Total expenses	37,916	724	38,639
Cost centre no.105 - Community & Recreation			
- employee related expenses	6,506	322	6,829
- working expenses	10,163	280	10,443
Total expenses	16,669	602	17,272
Total Council			
- employee related expenses	21,119	4,313	25,432
- working expenses	41,806	5,580	47,386
Total expenses	62,925	9,893	72,818


Based on the Total Council result by function we can calculate the Corporate Overheads Expense Ratio:

Corporate Overheads Expense Ratio [C]	
Expenses incurred on internal corporate overhead functions (\$'000) [A]	9,893
Total Agency Expenses (\$'000) [B]	72,818
==> Corporate Overheads Expense Ratio [C = A / B]	13.6%

Step 7 – Results and Conclusions

Corporate Overhead Expense Ratio Benchmarks

The level of corporate overheads varies in NSW Government agencies depending on size and CCQG has developed appropriate benchmarks for the proportion of staff engaged in corporate services activities as below ⁷:

Size of Agency	FTEs	8%	9%	10%	11%	12%	13%	14%	15%	16%
Large	> 1,000	←→								
Medium	351 -1,000			←→						
Small	101 -350					←→				
Very Small	< 100							←→		

Summary of Albury Council Corporate Overheads Ratios ()

Corporate Overheads Staff Ratio = 12.7%

Corporate Overheads Expense Ratio = 13.6%

The Maxell Report, *Corporate Overheads of Local Governments* points out that the costs associated with elected member expenses and not related to the management of the Council organisation itself are viewed as the provision of services and should be excluded in obtaining the total amount of corporate overheads. Therefore the deduction of only the disclosed costs of elected members fees and expenses from the total governance and corporate support costs will result in an overstatement of corporate overheads⁸. This report was not able to clearly extract and exclude this data resulting in a possible overstatement of corporate overheads expenses of up to \$300,000. Also, due to the difficulty of fully apportioning costs to functional activities the report tends to rely on

⁷ Council on the Cost and Quality of Government *Annual Report 2006* p.22

⁸ Maxwell DG & AB, *Corporate Overheads of Local Governments*, Prepared for the Independent Inquiry into Financial Sustainability of NSW Local Government 2006 p.7-8

apportioning costs based on FTE percentages. For these reasons the report believes the Corporate Overheads Expense Ratio is likely to be overstated by 0.5% - 1.0%.

This report concludes that the corporate efficiency of Albury Council **is only slightly above if not comparable** to the CCQG benchmark for an agency of its size (recognising that 434.7 FTEs would place Albury towards the bottom end of the 'Medium' category and closer to the 12% benchmark).

The Maxwell Report produced a table summarising the corporate overhead percentages of 58 councils out of 172 councils in NSW⁹. The table shows 12 councils in the 'Medium' category (351 – 1,000 FTEs) to which Albury Council belongs. This group showed a mean overhead percentage of 11.67% and a median percentage of 13.5%. This indicates the sample data is skewed to the right. With skewed distributions the median is a more appropriate measure of the centre of the distribution and therefore should be used for comparative purposes in this report. Furthermore as the range of FTEs is large in this category and smaller councils are expected to have a higher overhead percentage than larger councils, it is natural that the overhead percentage for smaller councils would be higher than the mean.

The Albury Council overhead percentage of 13.6% is only marginally higher than the 'Medium' category median of 13.5%. Therefore, it appears that Albury Council's performance is in line with the sample taken in the Maxwell Report. Albury Council's overhead percentage is higher than the mean reported in the Maxwell Report, however, this is not surprising as Albury Council is at the lower end of the FTE range for the 'Medium' category.

⁹ Maxwell DG & AB, *Corporate Overheads of Local Governments*, Prepared for the Independent Inquiry into Financial Sustainability of NSW Local Government 2006 p.14