

**CORPORATE OVERHEADS *of*  
LOCAL GOVERNMENTS**

**EXECUTIVE SUMMARY**

*Prepared for the*

**Independent Inquiry into the  
Financial Sustainability of NSW  
Local Government**

**Report by**

**DG & AB MAXWELL  
Consulting Accountants**



# CORPORATE OVERHEADS of LOCAL GOVERNMENTS EXECUTIVE SUMMARY

## INTRODUCTION

The Council on the Cost and Quality of Government (CCQG) has developed a *Corporate Overheads Percentage* for use in assessing and comparing State Government agencies.

## THE ASSIGNMENT

We have been asked to prepare a modified version of the CCQG back-office analysis of a representative sample of Councils using available 2005 financial data. No staffing analysis has been prepared as suitable staffing information is not available.

The purpose of this report is to enable the Inquiry to form an opinion of the general efficiency of council “back-office” operations, and to assess the impact of the operations on the future sustainability of NSW Councils generally.

## AVAILABLE DATA

The assignment has been strictly limited by the time available, which in turn has imposed severe restrictions on the quantity and quality of the data available for use. These limitations, and their effect on potential conclusions, were discussed with Mr Peter Connelly, Executive Director, Performance Measurement and Review Division of the Premier’s Department<sup>1</sup> before commencement of the assignment.

The available data was limited to the audited Annual Financial Statements and associated Special Schedules for the year ended 30 June 2005 of the 79 Councils submitted for judging in the NSW Local Government Finance Professionals Annual Financial Statements Award.

The original sample comprises councils from all but one of the Department of Local Government (DLG) classification groups. Three Councils were excluded following recent significant boundary change (classifications and other statistics not available) and a further four Councils because the required data was not supplied as supplementary information accompanying their financial reports.

All DLG classification groups were well represented in the sample, with a wide representation of Councils throughout all areas of the State, including metropolitan, regional and rural areas.

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1. The Performance Measurement and Review Division manage the implementation of the CCQG work program.



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## DATA LIMITATIONS - QUALITATIVE

The Report reviews common characteristics of Council financial reporting systems, and assesses the nature, quality and variability of the data used in calculating local government equivalents to the CCQG *corporate overhead percentage*. The report also considers differences in terminology usage between State and local governments relating to corporate overheads, and the extent to which different treatments affect the validity of the calculation.

The data used for the calculation was sourced from Special Schedule 1 of the *NSW Local Government Code of Accounting Practice and Financial Reporting* (the *Code*) being the *governance* and *corporate support* functional classifications. Expenses relating to elected members - which do not form part of the *corporate overhead percentage* calculation - are required by the Code to be disclosed in Note 3 to the Annual Financial Statements, and these have been deducted from the total of *governance* and *corporate support* expenses. Revenues for these classifications have been ignored, as they arise for various reasons, some of which would require inclusion - and some, exclusion - from the calculation.

Because the source data was originally prepared for other purposes without reference to the method of calculating the *corporate overhead percentage*, there is a degree of variability in the data, and it is not fully equivalent to that which would be used for a full CCQG calculation. The Report identifies five separate factors that would tend to overstate the *corporate overhead percentage* for particular Councils using this method, and one factor which would tend to understate the percentage.

## MULTI-FUNCTIONAL ORGANISATIONS

Council operations include a wide range of disparate activities - from road maintenance & construction to libraries to health inspections to child, youth and aged services and many more in between. The nature of these services differ widely, and requires different types of information for management purposes, and hence the nature of the administrative support appropriate to each service differs widely.

We therefore consider it reasonable to anticipate that the corporate overhead percentages for Councils will be higher than for the single- or limited-function agencies characteristic to other levels of government.

## SAMPLE ANALYSIS

### Elimination of Deciles

The *Corporate Overhead Percentage* was calculated, and to minimise the effects of the variations of the data as discussed above, the highest and lowest deciles were removed from the sample, leaving 58 Councils whose results are discussed below. The sample represents 37.9% of Councils preparing 2004/05 Annual Financial Statements.



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## Analysis of Sample

The sample was separately analysed on the basis of:

- Number of employees,
- Location - metropolitan Sydney, coast & ranges, west & far west,
- DLG Group classification, and
- Combined area/population.

In each case the results were charted, and all charts showed similar lack of patterns of the corporate overhead percentage, with low and high values appearing throughout all areas of each chart. These low and high values reflect both variation in corporate efficiency between Councils, and the variability in the data used in the calculation.

*For the reasons examined in detail in the Report, it is suggested that the conclusions drawn from this study are applicable to all Councils, irrespective of number of employees, location, DLG group classification, and area & population.*

## Corporate Overhead Percentage Benchmarks

The following are the corporate overhead percentage benchmarks developed by CCQG for use with State Government agencies<sup>2</sup>:

Number of FTEs	Size of Agency	Benchmark Minimum	Benchmark Maximum
<25	Micro	20%	25%
26 - 100	Very Small	14%	16%
101 - 350	Small	12%	14%
351 - 1000	Medium	10%	12%
1001+	Large	8%	10%

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2. Extracted from a Powerpoint™ presentation supplied to us by email 9/1/2006. Copyright © CCQG 2005.



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## RESULTS and CONCLUSIONS

The calculation of the *corporate overhead percentage* for the sample exhibited the following characteristics:

	Very Small	Small	Medium	Large	All
No of Councils	22	22	12	2	58
Minimum	2%	5%	4%	Sample too small	3%
Maximum	17%	19%	19%		19%
Mean	9.09%	10.50%	11.67%		10.38%
Median	9.5%	10%	13.5%		10%

95% Confidence level for range	7.86% - 10.32%	9.34% - 11.66%	8.91% - 14.42%	N/A	9.29% - 11.53%
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For the reasons given above, it is expected that the percentages shown will be an overstatement of the *corporate overhead percentage* derived using the full calculation method adopted by CCQG, and an expectation that the *corporate overhead percentage* for Councils will generally be slightly higher than for single- or limited-purpose agencies.

The percentages shown suggest that the corporate efficiency of Councils decreases as employee numbers increase, contrary to the expectation in the State government benchmarks. However, given that the calculation has been based on limited and variable information, we hesitate to place any reliance on this conclusion. Confirmation of this conclusion should only be based on detailed calculation in accordance with the CCQG Corporate Overheads Costing Guide.

The percentages shown suggest that corporate efficiency in the very small, small and medium Councils outperforms the State Government benchmarks **in each category**.

Given that the sample analysed represents 37.9% of Councils preparing 2004/05 Annual Financial Statements, and given that the variability is consistent irrespective of the type of analysis - employee numbers, location, DLG groups and area/population - we have some confidence in expressing the conclusion below. However, the conclusion can only be confirmed by detailed calculation in accordance with the CCQG Corporate Overheads Costing Guide.

***We therefore conclude that the corporate efficiency of NSW Councils - of all sizes, populations and locations - is at least comparable to, and possibly better than, equivalent sized State Government agencies.***

