

**Council on the Cost and Quality of
Government**

Better Management Practices



**Corporate Overheads
Costing Guide**

The *Better Management Practices – Corporate Overheads Costing Guide* is produced by the Council on the Cost and Quality of Government to assist teams undertaking Performance Reviews using the CCQG Performance Review Methodology.

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The *Better Management Practices* Guidelines can be viewed on the Council's website:

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Better Management Practices – Corporate Overheads Costing Guide

ISBN 0 7313 33268

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List of Key Terms and Acronyms

ABC	Activity Based Costing examines the activities undertaken within an organisation, and assigns costs to outputs according to the resources each activity consumes.
Benchmarking	The process of assessing an agency's performance (in producing a good or service) against a comparable good or service produced elsewhere.
Business unit	A segment of an agency which controls revenues and expenditure associated with a discrete part of the total operations. Business units are used to segregate financial data for accounting purposes, or to segregate operations for management purposes.
CCG	Council on the Cost of Government
CCQG	Council on the Cost and Quality of Government
Corporate overheads	The internal infrastructure that supports agencies in delivering their core and ancillary services to the community. 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 and; legal services.
Corporate services	The basic transaction processing and routine advising functions in asset and facilities management, financial management; human resources management; records and information management; information technology and communications; and office services and procurement.
Cost allocation	The process of attributing all relevant costs, both indirect and direct, to outputs so as to determine the full output cost. Examples of such costs are employee-related expenses, depreciation and amortisation.
Cost allocation base	The basis for allocating costs. For example, staff numbers, office floor space.
Cost drivers	Activities, events or factors that trigger, or have a strong correlation to, the cost being allocated, eg the ratio of floor space to total floor space could be a cost driver for the allocation of rental and cleaning costs.
Direct cost	A cost item that can be assigned specifically to the production of an output eg the cost of inputs such as paper.
Fixed costs	A cost that does not change in the short run with varying activity levels eg. rent.
FTE	Full Time Equivalent (staff)
Full costs	The total cost (direct and indirect) of all resources used in the production of an output. The method using full costs is also known as full absorption costing under the Australian Accounting Standards.
Indirect cost	A cost that contributes to the environment in which an output is produced, but is not incurred exclusively for that one output. These include management salaries; administrative expenses; marketing expenses, etc.
Outcomes	The results for the community that the government is seeking to influence (eg. the health of the population).
Outputs	Products and services produced or delivered by a department/agency for external customers.
Pivot table	A function in Microsoft Excel software which quickly combines and compares large amounts of data using an interactive table.
Position coding	The 10-digit WFP Position Code developed by the NSW Premier's Department capturing the information about the nature and purpose of work undertaken by positions.

TGE	Total Gross Earnings, a data item in Workforce Profile collection, which shows the actual before-tax earnings including salaries, overtimes, allowances etc for each employee.
Variable costs	Costs that change in proportion to volume levels. For example, photocopying costs.
WFP	Workforce Profile – an annual data collection on the characteristics of the NSW public sector labour force.

1. Why Cost Corporate Overheads?

Costing corporate overheads and comparing them with total agency staff costs can provide an indicator of the efficiency of government agencies. This costing tool is designed to calculate the proportion of agency resources (staffing and expenses) spent on corporate overhead functions or activities that support core activities. Corporate overheads costs can be expressed as a proportion of total cost, indicating the share of agency staffing and expenses devoted to back-office activities rather than frontline services. In general, agencies with low corporate overheads are more efficient.

The measure is an important tool which is used in performance reviews by the Council on the Cost and Quality of Government (CCQG). The definitions used by the Council have been adopted by the Corporate Services Reform Program, Department of Commerce, as the preferred methodology for benchmarking corporate services as part of its annual data collection.

Corporate overheads cost information helps agencies to plan and monitor their activities, and it provides a foundation for service or business decisions. By using a standard method to quantify and allocate corporate overheads costs, agencies can calculate the full costs of their core services. The information provides a baseline for comparing the cost of alternatives and comparing costs over time. Establishing valid baseline data is a key requirement for implementing the Government's Shared Corporate Services Strategy and for any form of major corporate services reform. By using a common calculation method across the sector, agencies can source valid data for benchmarking with shared services partners, other agencies and other organisations. This will assist in identifying opportunities to improve the delivery and procurement of corporate services.

Aims

This *Corporate Overheads Costing Guide* is part of a series of Better Management Practices being developed by the Council on the Cost and Quality of Government. It seeks to assist agencies in providing consistent costing data. The guide is aimed at directors of corporate services and chief financial officers in applying a standardised approach to analysing corporate overhead costs.






This Guide aims to:

- explain the steps used to calculate the corporate overheads as applied in CCQG Performance Reviews
- provide templates to assist in calculating corporate overheads
- provide a worked example.

Structure

Part 2 provides a definition of corporate overheads, Part 3 provides an overview of the steps involved in corporate overheads costing and Part 4 outlines a worked example. The steps in calculating corporate overheads costs are summarised in the table below.

Table 1 Key Steps and Tasks for Corporate Overheads Costing

Steps	Tasks	Description	Template
1 	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.	Template 1
2 	2.1	Identify the number of FTEs undertaking particular functions using WFP position coding and agency data.	Template 2.1
	2.2	Analyse contractors.	Template 2.2
3 	3.1	Calculate the ratio of FTE staff involved in corporate overhead functions to total agency FTEs.	Template 3
4 	4.1	Identify employee-related expenses associated with each function and adjust for exclusions.	Template 4.1a Template 4.1b Template 4.1c
	4.2	Calculate the proportion of Total Gross Earnings associated with each function.	Template 4.2
	4.3	Calculate the proportion of employee-related expenses related to particular functions (from Step 2).	Template 4.3
	4.4	Identify contractors' fees	Template 4.4
5 	5.1	Identify working expenses associated with corporate overheads functions. Adjust to ensure working expenses include recurrent operational expenditure and no agency-wide expenses are centrally recorded.	Template 5.1a Template 5.1b Template 5.1c
	5.2	Calculate working expenses related to corporate overheads.	Template 5.2a Template 5.2b Template 5.2c
6.	6.1	Calculate the corporate overheads expense ratio.	Template 6

2. What are Corporate Overheads?

Corporate overheads are essentially internal infrastructure costs associated with supporting an agency in delivering core services to the community. They include the following functions as defined by the Workforce Profile:

- 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.

Appendix 1 lists the types of activities involved in each corporate overhead function.

The methodology developed by CCQG to cost corporate overheads categorises an agency's activities and services by three functions, core services, ancillary services, and corporate overheads.

The *corporate overheads* functions included in this Guide are broader than the definition of *corporate services* under the Shared Corporate Services Strategy. The functions are outlined in the table below.

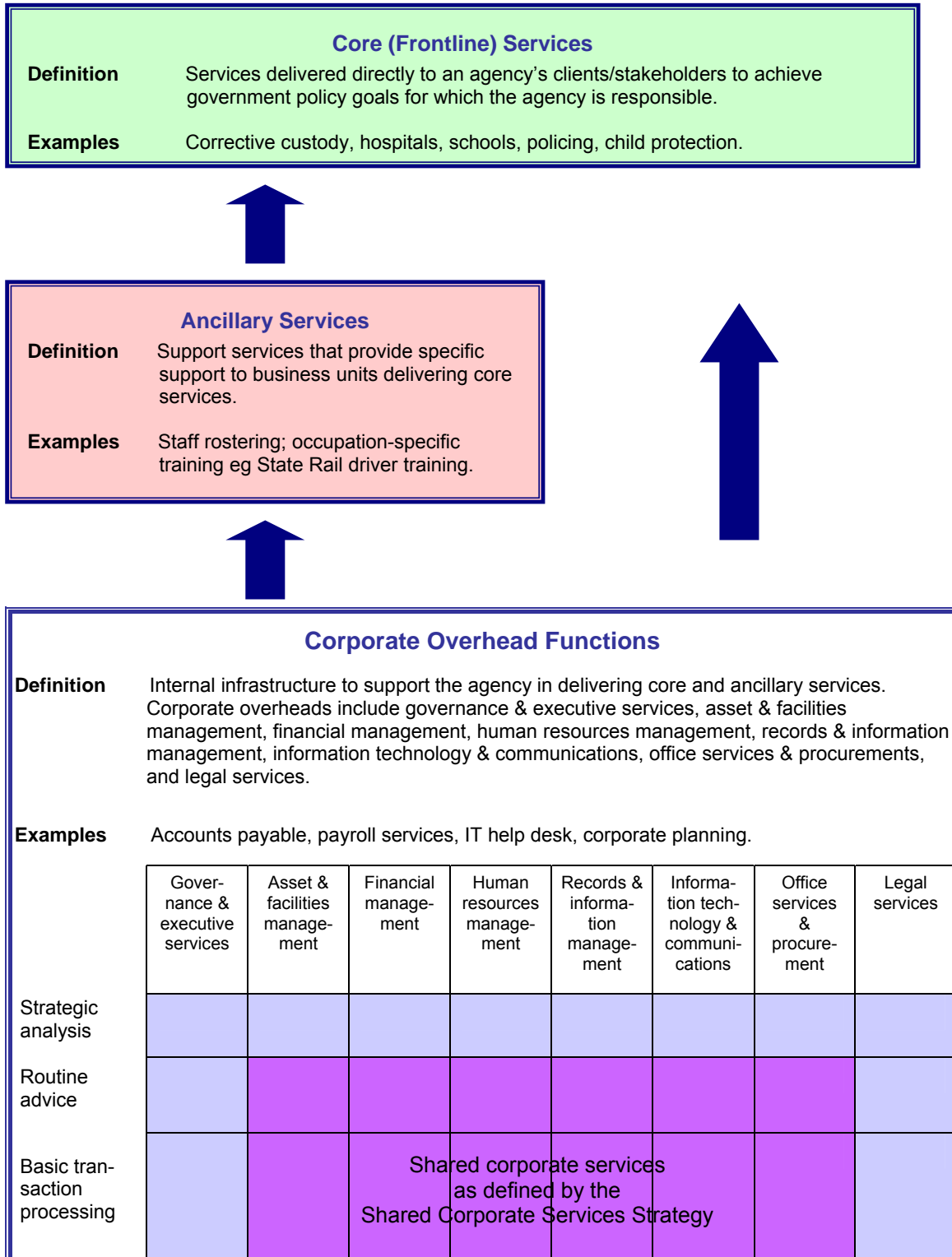
Corporate overheads include all functions defined as *corporate services* under the Shared Corporate Services Strategy as well as 'governance and executive services' and 'legal services'. Generally these additional functions are unique to an agency and cannot easily be shared.

Table 2 Corporate Overheads and Corporate Services Functions

Functions	Corporate Overheads	Corporate Services
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	✓	✗

Further, corporate overhead functions operate of three levels: basic transaction processing, routine advice and strategic analysis. Generally only the first two levels can be shared as agencies will generally need to retain a strategic analysis capacity in house. This is represented in Figure 1.

Figure 1 Functional Classification of Agency Services (Activities)



3. How to Cost Corporate Overheads?

Costing corporate overheads is complex because a job or position may only partially involve a corporate overheads function. Alternatively, some positions that are classified as corporate overheads roles provide these services externally and cannot be considered an internal cost. Determining the right proportion of a position devoted to corporate overheads and the appropriate cost of those resources requires several related processes:

- Calculating the FTEs devoted to corporate overhead activities in an agency
- Calculating the employee-related expenses attached to the corporate overhead activities of these FTEs
- Calculating the working expenses for these corporate overhead activities.

This section maps the steps required to:

- Cost an agency's corporate overheads in terms of Full Time Equivalent (FTE) staffing and expenses (\$).
- Derive the ratio of staff and expenses involved in particular functions.

Step 1 Analyse Business Units

Aim To analyse the organisation's structure and functional components.

- Tools**
- Workforce Profile Position Code
 - Template 1
 - Organisational chart, corporate plan or business plans of business units
 - Cost centre charts
 - Discussions with executives and managers
 - Actual FTE by expenditure and cost centre.

Task 1.1 Classify Business Units by Function

Process

The first step is to broadly categorise the activities of each business unit according to whether they are primarily engaged in:

- Core service delivery
- Ancillary service delivery
- Corporate overheads functions.

Some business units in the agency will undertake activities in one functional area only and can be easily classified. Other business units that undertake activities in more than one functional area should be classified according to the main activities they perform. For example, a business unit that mainly delivers core services while undertaking some corporate overhead functions should be classified as a core business unit.¹

¹ The costs of delivering the corporate overhead functions within the core business unit will be included in the corporate overheads costings (see Steps 2 and 3).

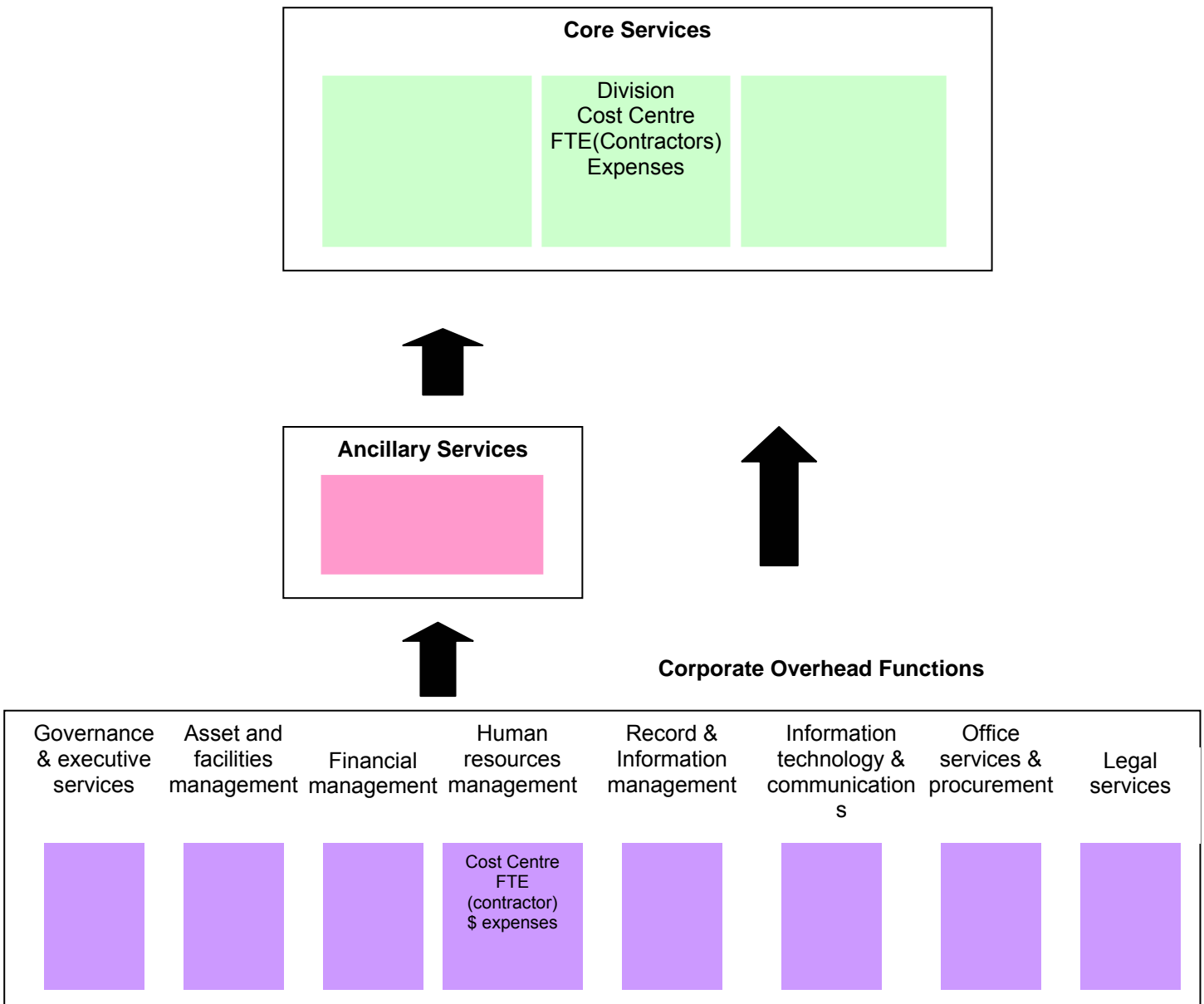
Where data are available from the agency, drill down to further classify the type of corporate overheads function that each unit performs. For example, both a human resources (HR) unit and executive support unit undertake corporate services but the HR unit undertakes human resources functions and an executive support unit is responsible for executive services. Care should be taken where some business units contribute to more than one corporate overhead function. The Finance and Administration Branch might undertake financial management, asset management and office services, for example. Core services can also be categorised into key services with agency inputs.

Task 1.2 Map Cost Centres, FTEs and Expenses

Process

Cost centre structure, FTEs, expenses and relationships between the business units can be mapped onto a chart (Template 1). It should be noted that while corporate overhead business units support the whole organisation, ancillary business units may only support some core business units. Identify the FTEs and expenses for each business unit recorded in the agency’s human resources and financial systems (i.e. cost centres). The FTEs and expenses of all business units should sum to the total FTEs and total expenses of the agency.

Template 1 Organisational Overview by Function



Step 2 **Analyse Staffing by Function**

Aim To determine the number of positions engaged in delivering core services, ancillary services and corporate services. This includes proportions of positions engaged in these functions.

- Tools:**
- WFP Position Coding data – individual employee information (position customer, primary and secondary service functions), FTE for reference period, weighting of primary internal service function, weighting of secondary service function (see Appendix 1 for details)
 - Cost centre code and position title (from agency)
 - Organisation Chart (with establishment list) position descriptions
 - Details about contractors
 - Discussion with various executives and managers
 - Template 2.1
 - Template 2.2

Task 2.1 Identify FTEs by Function

Process

The next step is to determine the function of particular positions within business units using Workforce Profile data based on:

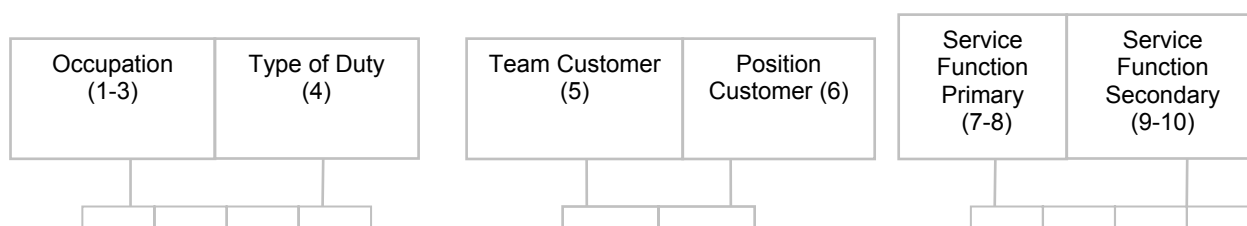
- position code data describing the proportion of time serving internal customers in the primary and secondary functions of a position
- position customers.

Workforce Profile Position Coding

The Workforce Profile (WFP) position coding framework developed by the NSW Premier’s Department is an important tool for corporate overheads costing. The WFP position code identifies the purpose of the position occupied by each employee and the customers of each position. This makes it possible to identify positions engaged in delivering core (frontline) services, ancillary services and corporate overheads in each agency. Employees who spend 30% or more² of their usual work hours in delivering these functions are identified. Workforce Profile data items required for corporate overhead and shared corporate service analysis are detailed in Appendix 2.

Each part of the 10-digit code provides a piece of information about the type of work undertaken, as shown below.

Workforce Profile Position Code



² The 30% threshold is based on the coding rule of WFP Position Coding.

The 10-digit position code includes data on:

Occupation - The first three numbers define the broad type of job performed by a position. This part of the code is derived from the Australian Standard Classification of Occupations developed by the Australian Bureau of Statistics (ABS). It affords a standardised and consistent method for classifying occupations at the broad level.

Type of duties - The fourth number defines the nature of work that is performed by a position and its role in delivering services or in facilitating service delivery.

Team customer - The team customer code indicates the type of customer receiving products or services delivered by the team in which a position operates.

Position customer - The sixth number describes the type of customer receiving products or services delivered by an individual position. Both the team customer number and the position customer codes provide indicators of the relative levels of internal and external service functions across the sector, and how these functions are distributed in the structure of public sector organisations.

Service function (primary and secondary) - This code describes the particular purpose of a position. It captures information about specific activities performed in areas often described as 'corporate services'. The service function code describes a broad range of functions classified as corporate services. The service functions are used in conjunction with the 'position customer' component to define corporate services for Workforce Profile reporting.

The position code identifies three groups of customers although it should be noted that a position can have more than one type of customer:

- **Code 1 - Internal customers** - These can be the organisation itself, the organisation's personnel, and central agencies where a position is engaged in routine reporting requirements.
- **Code 2 - External customers** - These can be members of the general public, specific groups within the NSW community or other state government agencies. Note that this does not include positions that provide corporate services to other agencies³.
- **Code 3 - Combination** of internal and external customers.
- **Code 4 - External customers (other government agencies)** - These are government agencies that receive corporate services.
- **Code 5 - Combination** of external public customers and external **government customers**.

The NSW Department of Commerce under its Service Management Framework⁴ has developed an activity dictionary⁵ which provides detailed definitions for each shared corporate service function. The use of these standardized definitions, which are consistent with the Workforce Profile, enables benchmarking of corporate service activities using a generic Activity Based Costing model (Appendix 3).

³ For example, Central Corporate Services Unit.

⁴ The NSW Department of Commerce, Corporate Services Reform Program, has produced a guide to assist agencies to develop a Service Management Framework. The objective of this new guide is to provide agencies with a framework for its corporate services delivery that contains a number of common elements. Firstly it incorporates a generic Activity Based Costing model for corporate services functions, defined by the Workforce Profile, which will enable agencies to understand the full cost of delivering corporate services to its customers. The emphasis is on how agencies can implement this costing model. To make implementation simpler and less time consuming we have developed a generic activity dictionary and a copy is attached at Appendix 3. Secondly it includes a generic Service Level Agreement agencies can use to define services to be provided following agreement between corporate services and its customers. The emphasis is on how to develop such an agreement in agencies, in particular in relation to change management issues. The Service Management Framework has been designed to provide agencies with practical information and templates to assist them in the implementation of these tools.

⁵ The activity dictionary expands the key corporate service functions, asset and facilities management, financial management, human resources management, records and information management, information technology, and office services and procurement. Activities for governance and executive services and legal services are under development.

Classifying Corporate Overheads

The corporate overheads staff are identified based on the Workforce Profile Position Coding. The analysis should identify all staff delivering corporate overhead functions regardless of where they are located in the organisation. Staff should be classified as corporate overheads resources if they spend 30% or more⁶ of their usual work hours delivering corporate overheads functions whether they are in central or head office or in core services business units.

Only those positions that provide corporate overheads functions to their own agency should be included in the corporate overhead staff ratio. The following rules are used:

1. Positions coded with internal customers and corporate overhead functions are included as internal corporate overhead costs.
2. Positions delivering corporate services to external customers are generally classified separately. They are not considered a corporate overhead cost to the agency.
3. However, FTEs related to the types of positions outlined in Table 3 are internal corporate overheads even though they have external customers.⁷

Table 3 Positions with External Customers: Inclusions in Corporate Overheads⁸

Title	Service Function Code	Role	Classification
Agency CEOs	11,13	External focus but most functions involve strategic management (eg planning, reporting for the whole organisation).	Corporate overheads. Partly core services in exceptional cases.
Other managers	11,13, 83	Senior managers more likely engaged in strategic management than in frontline (core) service delivery.	Corporate overheads (top two levels of management in agencies with ≥5 reporting levels). Corporate overheads for top level in agencies with ≤5 levels).
Corporate marketing	14	Sales and marketing research activities to support business operations.	Corporate overheads expenses.
Public relations / communications	14	Corporate communications and relations rather than core services.	Corporate overheads expenses.
Ministerial liaison	15	Administration of Ministerial correspondence, parliamentary inquiries etc.	Corporate overheads

4. Core services are ‘frontline services’ provided to external customers. These are classified as Service Function 91 and have an external customer code. Some items that are generally classified as corporate overheads for external customers are classified by the CCQG as core

⁶ The 30% threshold is based on the coding rule of WFP Position Coding.

⁷ Although a marketing unit might have external customers, it is usually considered a corporate service activity.

⁸ Corporate services under Shared Corporate Services Strategy is a subset of the corporate overheads defined in this Guide, see Section 1 – *What are Corporate Overheads?*

services as they are services for the public rather than internal agency infrastructure eg State Library services for the general public.

- Ancillary services support activities specific to particular core activities as outlined in the table below.

Table 4 Ancillary Services: Examples by WFP Service Function Code

Role	Service Function Code	Tasks
Rostering & Staff Scheduling	84	Rostering, staff schedules, forecasting work volumes and generating staff requirements, leave planning.
Training	82	Professional development or occupation-specific training.
Staff services	85	Staff travel pass provisions, staff canteens, staff uniform provision.
Technical / professional services		Technical services to core services (laboratory, calibration) accounting services to core services (project accounting, IT services to support core services.

Staffing analysis for corporate overheads costing should include:

- full time or part time staff on the agency's payroll
- permanent and temporary staff
- statutory officers
- contractors where contractors' fees represent 10% or more of its total employee related expenses⁹.

The category excludes:

- Staff on leave because of work-related injuries.
- Consultants as they are normally one-off or advisory in nature
- Board and committee members (these are generally recorded under working expenses).

Once staff numbers have been classified, the data is summarised in an Excel spreadsheet, using a pivot table to derive the numbers of FTEs engaged in the three functional categories (core services, ancillary and corporate services). This provides the information required for Template 2.1. Template 2.1 is available electronically from the Council on the Cost and Quality of Government. Also see Appendix 4 – How to classify FTEs.

⁹ Based on the Australian Accounting Standard test for materiality, AASB1031, Par 4.1.6.

Template 2.1 Employees on Payroll – FTEs by Cost Centre & Functional Category

Cost centre	Core Services	Ancillary Services	Corporate Overheads Internal	Corporate Overheads External	Total
			No of FTEs		
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Total Agency					

Source: WFP collection

Task 2.2 Analyse Contractors**Process**

In addition to permanent staff, the role of contractors should also be considered to determine whether to include them in the staffing analysis. As a rule, if the agency has engaged a high proportion of its workforce as contractors (i.e. contractor fees represent 10% or more of the agency's total employee-related expenses) the nature of contracted work is recurrent.¹⁰ If the contractors engage in routine, day-to-day operations on longer term tenure, they are really de facto employees and should be included in agency total FTEs.

If contractors are to be included in the staffing analysis, the functions and activities they undertake should be examined in detail. This means developing a separate position code for contractors as the WFP does not usually include contractors. Agency HR staff responsible for maintaining position coding data should be involved in this exercise.

Appendix 2 provides a checklist to identify contractor FTE numbers undertaking corporate overhead functions. Use Template 2.2 and the classification rules in Task 2.1 to derive the FTE distribution. An electronic template is available from CCQG.

Template 2.2 Contractors – FTEs by Cost Centre and Functional Category

Cost centre	Core Services	Ancillary Services	Corporate Overheads Internal	Corporate Overheads External	Total
			No of FTEs		
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Total Agency					

Source: Agency Human Resources area

¹⁰ Consultants are usually engaged under contract on a temporary basis to provide recommendations or high level specialist or professional advice to assist decision making by management (Premier's Department, 2000, Guidelines for the Engagement and Use of Consultants, Circ 2000-47, pp.3-5, as amended in Circ 2003-08). Consultants and their fees are assessed as part of the corporate overheads under working expenses and are excluded from staffing analysis.

Step 3 Calculate Corporate Overhead Staffing Ratio

Aim To calculate the proportion of total staff engaged in corporate services.

Tools

- Template 3

Task 3.1 Calculate Staff Ratio

Process

The staff ratio indicates the extent of an agency's staff resources involved in corporate overhead functions. Similar ratios can be derived for staff resources involved in core services and ancillary services.

Having calculated the number of FTEs engaged in each function, derive the ratio of FTE staff involved in corporate overhead functions to total agency FTEs.

Template 3 summarises the percentage of staff time involved in each function for each business centre to derive an accurate number of FTEs engaged in each function.

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

Cost centre	Core Services	Ancillary Services	Corporate Overheads Internal	Corporate Overheads External	Total
			No of FTEs		
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Total Agency			A		B
	% to total cost centre	% to total cost centre	% to total cost centre	% to total cost centre	Total cost centre
Cost centre no. & name of business centre					100%
Cost centre no. & name of business centre					100%
Cost centre no. & name of business centre					100%
Total Agency			C		100%

* includes contractors if they are included in the staff analysis (see Task 2.2)

The ratio can be derived with this equation:

$$\text{Corporate Overheads staff ratio (C)} = \frac{\text{Number of FTEs involved in corporate overhead functions (A)}}{\text{Total number of FTEs in agency (B)}}$$

As discussed earlier, the number of FTEs may or may not include contractors.

Step 4 Analyse Employee-related Expenses

Aim To analyse the proportion of total employee-related expenses associated with particular functions.

Tools

- Employee-related expenses items by cost centre
- Template 4.1a
- Template 4.1b
- Template 4.1c

Task 4.1 Identify Employee-Related Expenses

Process

The next part of the corporate overheads calculation involves analysing total employee-related expenses associated with corporate overhead functions, core and ancillary services. First, a full year's financial data (ie. the same year as the WFP data analysed in steps 2 and 3) should be reviewed to identify all full-year employee-related expenses associated with each cost centre (Template 4.1a).

This includes:

- salaries and wages (including allowances)
- overtime
- workers' compensation premium
- fringe benefits tax
- payroll tax
- superannuation contributions
- long service leave provisions.

Template 4.1a Employee-related Expenses by Cost Centre

Cost centre	Salaries & wages	Overtime	Workers compensation premium	Fringe benefits tax	Payroll tax	Superannuation contributions	Long service leave provision	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost centre no. & name of business centre								
Cost centre no. & name of business centre								
Cost centre no. & name of business centre								
Total Agency								

Source: Agency Financial Information Systems

It is important to review the data to ensure that no agency-wide expenses are centrally recorded in cost centres responsible for corporate overhead functions, as shown in Template 4.1a. Some employee-related expense items that may be centrally recorded (usually in the Finance Branch) include superannuation and long service leave provisions.

Use Template 4.1b to adjust for the centrally recorded expense items.

Template 4.1b Adjustments for Centrally Recorded Expenses*

Cost Centre	Expense item (before adjustment)	Allocation base	Adjustment	Expense item (after adjustment)
	\$	\$	\$	\$
Cost Centre no. & name of business centre				
Cost Centre no. & name of business centre				
Cost Centre no. & name of business centre				
Total Agency				

* one worksheet per adjustment. Source: Agency Finance Division.

The adjusted employee-related expenses are shown in Template 4.1c.

Template 4.1c Adjusted Employee-related Expenses by Cost Centre

Cost centre	Salaries & wages	Overtime	Workers comp premium	Fringe benefits tax	Payroll tax	Super contribu- tions	Long service leave provision	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost centre no. & name of business centre								
Cost centre no. & name of business centre								
Cost centre no. & name of business centre								
Total Agency								

Task 4.2 Calculate Proportion of Total Gross Earnings by Function**Process**

The total gross earnings in the WFP collection are summarised by function and cost centre in the same way as the FTEs (Task 2.1) to estimate the costs attributable to corporate overheads functions, core and ancillary services. The proportions of costs will then be applied to the employee-related expenses (after adjustments shown in Task 4.1) to derive the proportion of employee-related expense related to particular functions. This provides a more accurate gauge of employee-related costs in each centre than using the proportions in FTEs.

Template 4.2 Adjusted Total Gross Earnings by Cost Centre and Function

Cost centre	Core Services	Ancillary Services	Corporate Overheads Internal	Corporate Overheads External	Total
	\$	\$	\$	\$	\$
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Total Agency					
	% to total cost centre	% to total cost centre	% to total cost centre	% to total cost centre	Total cost centre
Cost centre no. & name of business centre					100%
Cost centre no. & name of business centre					100%
Cost centre no. & name of business centre					100%
Total Agency					100%

* Includes adjustments needed for employees as shown in Task 2.3.

Source: WFP collection

Task 4.3 Calculate Employee-Related Expenses by Function**Process**

Having identified the proportion of total gross earnings each function accounts for, the aim is to derive the proportion of employee-related expenses associated with each function. Apply the proportions of total gross earnings associated with each functional category to the adjusted employee-related expenses in cost centres (from Task 4.1 above). This will provide the employee-related expenses for staff undertaking corporate overhead functions, core and ancillary services.

Template 4.3 Employee-related Expenses by Cost Centre and Function

Cost centre		Core Services	Ancillary Services	Corporate Overheads Internal	Corporate Overheads External	Total
Cost centre no. & name of business centre						
- distribution of Total Gross Earnings	%					
- allocation based on TGE distribution	\$					
Cost centre no. & name of business centre						
- distribution of Total Gross Earnings	%					
- allocation based on TGE distribution	\$					
Cost centre no. & name of business centre						
- distribution of Total Gross Earnings	%					
- allocation based on TGE distribution	\$					
Total Agency						

Task 4.4 Identify Contractors' Fees¹¹

Process

If Step 2.2 determines that contractors should be included, contractors' fees associated with each cost centre and functional category should be identified as outlined below. The information is provided by the Human Resources area in the agency.

Template 4.4 Contractors' Fees by Cost Centre and Function

Cost centre	Core Services	Ancillary Services	Corporate Overheads Internal	Corporate Overheads External	Total
	\$	\$	\$	\$	\$
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Total Agency					

Source: Agency Human Resources area.

Step 5 Analyse Working Expenses

Aim

To analyse the working expenses associated with corporate overheads.

Tools

Full year operating statement by cost centres and allocation principles outlined in Appendix 4.

- Template 5.1a
- Template 5.1b
- Template 5.1c

Task 5.1 Identify Working Expenses

Working expenses include all non employee-related expenses eg other operating expenses, advertising and promotion; auditor expenses; consultants and contractors; courier and freight; electricity, insurance, operating leases, property rental, telecommunications, travel and accommodation, and any other. Working expenses also include depreciation and maintenance expenses such as those for building and improvements, plant and equipment and computer equipment.

Before calculating the proportion of working expenses associated with corporate overheads, it is important to ensure that only recurrent, operational expenditure is included as corporate overhead costs. The following should be excluded:

- **Extraordinary items** – Expenses incurred for events that are outside the ordinary activities of the agency. Given the broad definition of ordinary activities, it is extremely rare for a transaction to give rise to an extra-ordinary item but an example might be expropriation of an asset in a political environment where expropriations are rare.

¹¹ If contractors' fees are included in staffing analysis as determined in Task 2.2.

- **Individually significant (or abnormal) expenses/losses** – These are expenses from ordinary activities that are of such a size, nature or incidence that their disclosure is relevant in explaining financial performance¹², eg. litigation settlements.
- **Depreciation of community owned assets such as roads and bridges, hospitals etc.**
- **Grants and subsidies that the agency administers for distribution to specific target groups** – Some grants and subsidies are not considered to be working expenses incurred for delivering frontline/core services. Examples include the First Home Owners' Grant (administered by the Office of State Revenue), transport grants to private bus operators subsidising various targeted users, etc.
- **Redundancy payments** – These are not expenses for services provided by the agency.

It is also important to ensure that each cost centre records only the expenses related to its functions and activities and no agency-wide expenses are centrally recorded in cost centres responsible for corporate overheads. Centrally recorded items often include **rent** (property branch), **depreciation** (finance branch), **property or public liability insurance** (finance division).

These recorded expenses need to be aligned with the cost centre for which they were incurred and should be allocated in the following ways:

- **Rent** – by proportion of floor space occupied by each cost centre.
- **Depreciation** – by **proportion** of dollar value of assets held by each cost centre. Where an asset can be identified as being under exclusive control of the corporate overhead business units, all values of this asset should be included under corporate overheads cost centres. For example, IT system networks.
- **Insurance** – by **proportion** of floor space occupied by each cost centre, proportion of FTEs.

¹² Financial Reporting Code for Budget Dependent General Government Sector Agencies (NSW Treasury, TPP 03-03). Although the Financial Reporting Code applies to budget-dependent general government sector agencies, the same principle could be applied to other non budget dependent agencies.

Template 5.1a Working Expenses* by Cost Centre

Cost centre	Expense items from agency financial information system																
	Adver- ting & promo- tion	Audi- tor's fee	Cont.* & consult	Couri- er & freigh- t	Elec- tricity	Insu- rance	Op lease - motor vehicl- es	Rents	Tele- phone	Travel & acco- mmo- dation	Other opera- ting expen- ses	Main- tenanc- e	Depre- ciation	Grants & subs	Borro- wing costs	Other expen- ses	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost centre no & name of business centre																	
Cost centre no & name of business centre																	
Cost centre no & name of business centre																	
Total Agency																	
Less: exclusions																	
Cost centre no & description of exclusions																	
Cost centre no & description of exclusions																	
Total agency (after exclusions)																	

*Excludes contractors' fees if contractors have been included in staff analysis (Task 2.2)

Source: Agency financial information system

Template 5.1b Adjustments for Centrally Recorded Expense Items*

Cost centre	Expense item (before adjustments)	Basis of Adjustment (proportional contribution to cost)	Adjustments	Expense item (after adjustments)
	\$		\$	\$
Cost centre no & name of business centre				
Cost centre no & name of business centre				
Cost centre no & name of business centre				
Total Agency				

* One worksheet per adjustment

Template 5.1c Adjusted Working Expenses* By Cost Centre

Cost centre	Expense items from agency financial information system																
	Adver- ting & promo- -tion	Audi- tor's fee	Cont. * & cons ult	Courie r & freight	Elec- tricity	Insu- rance	Op lease - motor vehicl es	Rents	Tele- phone	Travel & acco- mmo- dation	Other opera- ting expen ses	Main- tenanc e	Dep- recia- tion	Grants & subs	Borro wing costs	Other expen ses	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost centre no & name of business centre																	
Cost centre no & name of business centre																	
Cost centre no & name of business centre																	
Total Agency (after adjustments)																	

* Excludes contractors' fees if contractors have been included in staff analysis (Task 2.2)

Task 5.2 Calculate Corporate Overheads Working Expenses

Process

Examine the working expense items for each cost centre to identify whether the expense is exclusively for

- core service
- ancillary services
- internal corporate overheads functions
- corporate overheads functions provided to external parties

Those expenses which could not be exclusively attributed to a function are allocated using the FTE basis derived by Task 3.1. Alternative allocation bases can be used if the FTE is not a fair representation of the cost consumption. See Appendix 5 for list of expenses and suggested allocation bases.

Template 5.2a is used for classifying the working expenses into the functional categories. The expenses need to be apportioned are carried to Template 5.2b and allocated by the FTE basis (or other appropriate basis). The amounts in Template 5.2a and allocations in Template 5.2b are added together in Template 5.2c.

Template 5.2a Working Expenses* By Cost Centre and Function

Cost centre	Expense items from agency financial information system																
	Adver- ting & promo- tion	Audi- tor's fee	Cont.* & consult	Courier & freight	Elec- tricity	Insu- rance	Op lease – motor vehicle s	Rents	Tele- phone	Travel & acco- mmo- dation	Other opera- ting expens es	Main- tenance	Dep- recia- tion	Grants & subs	Borrow- ing costs	Other expens es	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost centre no & name of business centre																	
- core services																	
- ancillary services																	B1
- corporate overheads internal																	C1
- corporate overheads external																	D1
- to be apportioned																	E1
Total cost centre																	
Cost centre no & name of business centre																	
- core services																	
- ancillary services																	
- corporate overheads internal																	
- corporate overheads external																	
- to be apportioned																	
Total cost centre																	
Cost centre no & name of business centre																	
- core services																	
- ancillary services																	

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Cost centre	Expense items from agency financial information system																	
	Adver-ting & promo-tion	Audi-tor's fee	Cont.* & consult	Courier & freight	Elec-tricity	Insu-rance	Op lease – motor vehicle s	Rents	Tele- phone	Travel & acco- mmo- dation	Other oper- ating expens es	Main- tenance	Dep- recia- tion	Grants & subs	Borrowi ng costs	Other expens es	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
- corporate overheads internal																		
- corporate overheads external																		
- to be apportioned																		
Total cost centre																		
Total Agency																		
- core services																		
- ancillary services																		
- corporate overheads internal																		
- corporate overheads external																		
- to be apportioned																		
Total Agency																		

* Excludes contractors' fees if contractors have been included in staff analysis (Task 2.2)

Template 5.2b Allocating Working Expenses by Function

Cost centre	Working expenses to be apportioned	Core Services	Ancillary Services	Corporate Overheads Internal	Corporate Overheads External	Total
Cost centre no. & name of business centre						
- allocation base: % FTE distribution		%	%	%	%	100%
- working expenses apportioned	\$E1	\$A2	\$B2	\$C2	\$D2	\$
Cost centre no. & name of business centre						
- allocation base: % FTE distribution		%	%	%	%	100%
- working expenses apportioned	\$	\$	\$	\$	\$	\$
Cost centre no. & name of business centre						
- allocation base: % FTE distribution		%	%	%	%	100%
- working expenses apportioned	\$	\$	\$	\$	\$	\$
Total Agency						
- allocation base: % FTE distribution		%	%	%	%	100%
- working expenses apportioned	\$	\$	\$	\$	\$	\$

Source: FTE distribution from Template 3

Template 5.2c Working Expenses* by Cost Centre and Function

Cost centre	Core Services	Ancillary Services	Corporate Overhead Internal	Corporate Overheads External	Total
	\$	\$	\$	\$	\$
Cost centre no. & name of business centre	A1 + A2	B1+B2	C1+C2	D1+D2	
Cost centre no. & name of business centre					
Cost centre no. & name of business centre					
Total Agency					

* Excludes contractors' fees if contractors have been included in staff analysis (Task 2.2)

Step 6 Corporate Overheads Expense Ratio**Aim** To calculate the ratio of corporate overheads expenses to total expenses.**Tools**

- Template 6

Task 6.1 Calculate Corporate Overheads Ratio to Total Costs**Process**

The expense ratio indicates the extent of an agency's financial resources used for providing internal corporate overhead functions. To derive this ratio, sum the employee-related expenses associated with the FTEs involved in corporate overhead functions (Step 4) and relevant working expenses (Step 5). Divide total corporate overheads expenses by total expenses after adjustments to exclude

non recurrent and non operational items, such as depreciation of community owned assets, grants and subsidies etc.

Template 6 provides a consolidated summary of appropriately allocated expenses that can be used to derive this ratio.

Template 6 Total Expenses by Cost Centre and Functional Category

Cost centre	Core Services	Ancillary Services	Corporate Overheads Internal	Corporate Overheads External	Total
	\$	\$	\$	\$	\$
Cost centre no. & name of business centre					
- employee related expenses					
- contractors' fee *					
- working expenses *					
Total expenses					
Cost centre no. & name of business centre					
- employee related expenses					
- contractors' fee *					
- working expenses *					
Total expenses					
Cost centre no. & name of business centre					
- employee related expenses					
- contractors' fee *					
- working expenses *					
Total expenses					
Total Agency					
- employee related expenses					
- contractors' fee *					
- working expenses *					
Total expenses			A		B
Cost as % Total Expenses			C		

*If contractors are included in the staff analysis (Task 2.2), contractors' fees are examined separately from working expenses (Task 4.4) and therefore should be excluded from the working expenses.

Source: employee-related expenses from Template 4.3; contractors' fee from Template 4.4 and working expenses from Template 5.2c

The Corporate Overheads expense ratio can be calculated using the equation:

$$\text{Corporate Overheads expense ratio (C)} = \frac{\text{Expenses incurred on internal corporate overhead functions (A)}}{\text{Total agency expenses (B)}}$$

The following worked example of a hypothetical NSW agency shows how these templates can be used to provide corporate overheads indicators.