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7 April 2014

Mr Donald Riezebos

Chief Executive

Local Government Commission

P O Box 5362

WELLINGTON 6145

Dear Donald

**REPORT ON CORPORATE OVERHEAD COSTS OF THE NINE COUNCILS IN THE WELLINGTON REGION**

This is a report containing the information on corporate costs gathered from the nine councils in the Wellington Region. This information and the accompanying analysis are to assist the Commission in their deliberations on a proposal for future local government arrangements in the Wellington region.

You may remember that similar reports were prepared by me last year in respect of the Northland and Hawke’s Bay. This report is slightly different in that I have not assessed long term annual savings associated with the rationalization into a lesser number of local authorities. The report may be considered ‘Stage 1’ in nature by setting the scene on the quantum and nature of corporate costs. A future ‘Stage 2’ report will focus on expected annual savings. In order to advance Stage 2 the potential scenarios or options of how local government in Wellington might be re organized will need to be determined, as I need ‘counterfactuals’ to do my comparisons.

My report is set out under the following headings;

* Methodology
* Key Findings
* Indicative areas for rationalisation
* Limitations
* Next Steps
* Appendices;
* Appendix 1 – Corporate FTEs and personnel costs shown by Council (pie diagrams)
* Appendix 2 – Corporate FTEs and personnel costs shown by corporate function (pie diagrams)
* Appendix 3 – Percentage of Corporate FTEs compared to total staff (by Council) (chart)
* Appendix 4 – Tables of returned information from each council categorized into; largest three Councils, four ‘mid-sized ‘councils and the two small Wairarapa councils.
* Appendix 5 – Copy of the template sent to each council for completion

**Methodology**

We were seeking to derive information from each of the nine councils on those costs which represent the personnel cost component of corporate overheads for 2013 -14 and also to determine the number of corporate Full Time Equivalents (FTEs) at 30 June 2013. The costs sought excluded;

* Direct costs of council activities ( such as roading etc)
* CCO costs (other than costs of monitoring CCOs)
* Mayoral, elected member and CEO remuneration

The best way to gather this information was by issuing a generic template and accompanying guidance to each council. Care was taken to ensure there were consistent classifications and detailed definitions of what information should be included or excluded.

The template was sent to all Councils early March with a deadline date of 14 March 2014 for return of information. The last Council return was received 31 March 2014. The template is shown in Appendix 5.

Generally the responses were of good quality. While some clarifications were required the information returned was sufficiently robust for this analysis.

**Key Findings**

The major observations from the returned data are;

* Collectively the nine councils had 760 FTE corporate personnel at 30 June 2013. The total FTEs of all councils’ staff at June 2013 was 3257. This gives an overall percentage of corporate to total staff of 23%. Appendix 3 shows the breakdown of this information by Council. The percentages range from 9% to 29%.
* The three largest councils (Hutt City, Wellington City and GWRC) account for 74% of total corporate FTEs. Wellington Council by itself accounts for over half (53%) of the nine councils corporate FTEs.
* The corporate FTEs returned by the two small Wairarapa councils (South Wairarapa and Carterton) are miniscule at 9 FTEs and 4 FTEs respectively.
* The Corporate FTEs have been split into 10 work functions. The IT function has the largest number of FTEs - 198 FTEs ,or 26%, followed by Finance at 143 FTEs or 19%. Customer Services show 86 FTEs (11%). Communications, HR and Records functions are each around 50 FTEs.
* An interesting corporate work function was termed ’other specialist services’. This captured the likes of business analysts, legal functions, CCO monitoring etc. There were 98 FTEs in this category over all the nine councils, but Wellington City alone accounted for 70 of the 98 FTEs. Appendix 2 shows the details.
* Dollar wise, the 760 corporate FTEs for the nine councils are budgeted to incur personnel costs of $53.6 million in 2013-14. By personnel costs we mean the gross pay, bonuses, FBT, employers superannuation subsidy and health benefit costs – i.e. the total cost of employment. The $53.6 million translates into an average of $70,500 per corporate employee for 2013-14. For individual councils the average ranged from $51,000 to $82,000.
* Although it appears counter-intuitive there is no indicative trend that the bigger councils have a lower corporate staff to total staff ratio than smaller councils. One would have thought that Carterton would have a high ratio as there would be a minimum level of corporate resource needed to support council activities. However their ratio is 9% with corporate staff obviously multi-tasking in different functions. Conversely there appear to be no economies of scale at the other end of the scale with Wellington City showing 402 corporate FTEs, which was 27% of the total council FTEs at 30 June 2013.

**Indicative Areas for Rationalisation in a revised local government structure for the Wellington region**

While this aspect will be covered in depth in Stage 2 it is possible to make broad observations on corporate functional areas that lend themselves to potential rationalization;

* There is a high number of FTEs (with associated personnel costs) in the IT function. There were 198 FTEs over the nine councils at June 2013, with 130 FTEs of these or 66% employed by Wellington City. In any re organization it would be expected that this resource could be rationalized after a transition period. FTE savings of 20-30% should be possible, although the more significant savings will be in the rationalization of IT systems and common platforms. This is a challenge that Auckland Council is facing at present.
* The number of Finance personnel could be reduced. At June 2013 there were 143 FTEs over the nine councils covering core finance functions, rating and payroll services. Broadly, after a transition period, Finance personnel numbers could reduce by 30-40%. The reduction would depend on the extent of any ‘funding transition’ arrangements for legacy councils and the number and nature of local authority entities proposed.
* There may be limited scope to rationalize Customer Service FTEs. There were 86 FTEs at June 2013. While there may be savings in ‘back office’ customer help desks, there would still be a need to have an extensive ‘front desk’ service. Savings of 10% may be possible.
* There were 49 communication FTEs at June 2013, with 24 employed at Wellington City. If there were to be lesser number of local authority entities proposed, it is reasonable to assume that communication strategies would be streamlined. Savings of 15-25% may be possible.
* Mayoral and CEO support has 22 FTEs while Executive Management Support has 32 FTEs. It would be expected that these numbers would reduce, depending on the number and nature of local authority entities proposed.
* Council and Committee support FTEs were 24 at June 2013. If a number of local boards were to be proposed in the new arrangements it is likely the number of personnel needed to service these boards would need to increase from 24 FTEs – this is of course dependent on the number of local boards contemplated.

**Limitations**

In preparing this report I have relied to a large extent on the accuracy of the council information returned to me. While I have obtained clarification on several matters and have moderated the data slightly where necessary, I have not performed a ‘bottom up’ audit of the data sent to me.

Also I would reiterate that the information relates only to the personnel component of corporate support costs. It does not reflect the direct activity costs, nor the costs of CCO organizations.

The information also excludes the remuneration of Mayors, elected members and CEOs. This was reported by me separately to the Commission on 26 November 2013. For the record the Mayors and elected members remuneration totaled $5.3 million and the CEOs remuneration totalled $2.6 million in the 2012-13 financial year.

**Next Steps**

As Stage 2, I will more closely consider the present Wellington councils corporate FTEs in comparison with several options for potential reorganization structures. To do this I will need to gain a better appreciation of the potential options that the Commission is considering.

Yours faithfully



Brian Smith

Principal, Brian Smith Advisory Services

**Appendix 1**

**Corporate FTEs and Associated Personnel Costs of the nine Wellington Councils**

Table 1; Corporate Support Full Time Equivalents (FTEs) as at 30 June 2013

Total FTEs - 760

Table 2; Corporate Support FTE Personnel Costs – Budgeted 2013-14 – 000s

Total; $53.6 million

**Appendix 2**

**Corporate FTEs Categorised into Functions for the nine Wellington Councils**

Table 3; Corporate FTEs by Functions as at 30 June 2013

Total FTEs =760

**Appendix 3**

**Percentage of Corporate FTEs for the nine Wellington Councils compared to total staff**

Table 4; Percentage of Corporate FTEs to Total Staff FTEs as at 30 June 2013

**Appendix 4 – Tables of Individual Councils Corporate FTEs and Budgeted Costs**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Large Wellington Councils Corporate Personnel Costs** | | | | | | | *Notes* |
| *Corporate Function Area* | ***Hutt City*** | | ***Wellington City*** | | ***Greater Wellington Regional Council*** | |
| *Full Time Equivalent (FTEs)*  *30/6/13* | *Budget Annual Personnel costs 2013- 14*  *(000s)* | *Full Time Equivalent (FTEs)*  *30/6/13* | *Budget Annual Personnel costs 2013- 14*  *(000s)* | *Full Time Equivalent (FTEs)*  *30/6/13* | *Budget Annual Personnel costs 2013- 14*  *(000s)* |
| Finance | 16.95 | $1,111 | 58 | 4,388 | 9 | 853 |  |
| IT | 21.68 | $1,612 | 129.6 | 9,095 | 13 | 1,210 |  |
| Communications | 6.00 | $540 | 24 | 1,464 | 8.5 | 815 |  |
| Human Resources | 4.00 | $454 | 34.6 | 3,808 | 6.5 | 522 |  |
| Records | 14.00 | $738 | 18.4 | 1,007 | 9 | 440 |  |
| Customer Service | 10.54 | $513 | 33 | 1,318 | 4 | 219 |  |
| Mayoral/CEO support | 2.63 | $155 | 10 | 515 | 2.5 | 202 |  |
| Corporate Executive Support | 3.93 | $234 | 15 Est | 1,006 Est | 2.4 | 159 | Note 1 |
| Council/Committees secretarial support | 4.87 | $333 | 9 | 468 | 5.9 | 489 |  |
| Other specialist functions | 14.30 | $1,359 | 70 | 4,841 | 2.4 | 266 | Note 2 |
|  |  |  |  |  |  |  |  |
| Total Corporate FTEs | **98.90** | **$7,049** | **401.6** | **$27,910** | **63.2** | **$5,175** |  |
| Total Council Staff 30/6/13 | **387** | **-** | **1495** |  | **466** |  |  |
| Average FTE personnel cost |  | **$71.3** |  | **$69.5** |  | **$81.9** |  |
| % Corporate FTEs to total staff | **26%** |  | **27%** |  | **14%** |  |  |

Note 1; WCC estimated FTEs for Corporate Executive Support as 15 but did not supply a budgeted personnel cost. Therefore an average cost per FTE has been added

Note 2; WCC Other specialist functions (70 FTEs) includes Fleet, Internal Audit, CCO monitoring, project office, issues resolutions, Policy, Strategy & Planning, treaty relations, publication design

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Medium Size Wellington Councils Corporate Personnel Costs** | | | | | | | | | |
| *Corporate Function Area* | ***Kaipti DC*** | | ***Masterton DC*** | | ***Porirua CC*** | | ***Upper Hutt CC*** | | ***Notes*** |
| *Full Time Equivalent (FTEs)*  *30/6/13* | *Budget Annual Personnel costs 2013- 14*  *(000s)* | *Full Time Equivalent (FTEs)*  *30/6/13* | *Budget Annual Personnel costs 2013- 14*  *(000s)* | *Full Time Equivalent (FTEs)*  *30/6/13* | *Budget Annual Personnel costs 2013- 14*  *(000s)* | *Full Time Equivalent (FTEs)*  *30/6/13* | *Budget Annual Personnel costs 2013- 14*  *(000s)* |
| Finance | 17 | 1,387 | 7.4 | 554 | 16.3 | 1,150 | 10 | 655 |  |
| IT | 13 | 995 | 2.0 | 159 | 14.0 | 1,217 | 4.5 | 359 |  |
| Communications | 4 | 353 | 0.8 | 77 | 3.3 | 313 | 2.25 | 126 |  |
| Human Resources | 4.4 | 360 | 0.4 | 33 | 3.9 | 369 | 1.5 | 113 |  |
| Records | 4 | 191 | 1.0 | 41 | 3.0 | 134 | 1.35 | 60 |  |
| Customer Service | 16.5 | 967 | 5.0 | 195 | 9.6 | 462 | 5 | 240 |  |
| Mayoral/CEO support | 2 | 140 | 1.0 | 51 | 2.0 | 121 | 1 | 67 |  |
| Corporate Executive Support | 4 | 260 | 1.8 | 110 | 4.0 | 244 | 0.5 | 30 |  |
| Council/Committees secretarial support | Includedabove |  | 1.0 | 45 | 2.0 | 128 | 0.5 | 37 |  |
| Other specialist functions | 3 | 306 | 0.8 | 72 | 4.0 | 371 | 3.25 | 203 |  |
| Other Admin |  |  |  |  |  |  | 2.25 | 105 |  |
| Total Corporate FTEs | 67.9 | $4,959 | 21.2 | $1,337 | 62.1 | $4,509 | 32.1 | $1,995 |  |
| Total Council Staff 30/6/13 | 292 |  | 74 |  | 320.8 |  | 136 |  |  |
| Average FTE personnel cost (000 |  | $73 |  | $63.1 |  | $72.6 |  | $62.1 |  |
| % Corporate FTEs to total staff | 23% |  | 29% |  | 19% |  | 24% |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Small Wairarapa Councils Corporate Personnel Costs** | | | | | |
| *Corporate Function Area* | ***Carterton DC*** | | ***South Wairarapa DC*** | | *Notes* |
| *Full Time Equivalent (FTEs)*  *30/6/13* | *Budget Annual Personnel costs 2013- 14*  *(000s)* | *Full Time Equivalent (FTEs)*  *30/6/13* | *Budget Annual Personnel costs 2013- 14*  *(000s)* |
| Finance | 2.8 | 151 | 5 | 325 |  |
| IT | 0.2 | 10 |  |  |  |
| Communications | 0.05 | 2 |  |  |  |
| Human Resources | - | - |  |  |  |
| Records | 0.15 | 7 | 0.5 | 22 |  |
| Customer Service | 0.5 | 24 | 1.68 | 64 |  |
| Mayoral/CEO support | 0.1 | 4 | 1 | 49 |  |
| Corporate Executive Support | - | - |  |  |  |
| Council/Committees secretarial support | 0.15 | 6 | 0.5 | 24 |  |
| Other specialist functions | - | - | .63 | 25 |  |
|  |  |  |  |  |  |
| Total Corporate FTEs | **3.95** | **$204** | **9.31** | **$508** |  |
| Total Council Staff 30/6/13 | **46** |  | **39.6** |  |  |
| Average FTE personnel cost |  | **$51.6** |  | **$54.6** |  |
| % Corporate FTEs to total staff | **9%** |  | **24%** |  |  |

**Appendix 5**

**Copy of Template on Corporate Costs sent to Councils**

**Template for Collecting Information on Corporate Support Costs for Councils in the Wellington Region to assist the Local Government Commission**

**Introduction**

The Local Government Commission is seeking additional finance information from each Council in the Wellington Region to assist them in their deliberations on the future proposed structure for local government governance in the region.

We would like information on the corporate support activities that each council has and which are allocated as overheads to each council activity or department. It is important to stress that we are seeking corporate support information rather than activity-based cost information.

In essence we are seeking;

* Full time equivalent positions (FTEs) at 30 June 2013 for likely corporate functions listed in the table below; and
* The budgeted personnel costs for 2013-14 for each of the corporate function

The best source of this information is normally the spreadsheet which captures the overhead allocations (usually held/monitored by Finance)

We have prepared below a table for you to complete the requested information. We have also provided explanatory notes to assist in definitions and inclusions/exclusions.

Other major points to note are;

* We are not interested in the overhead allocation methodology
* We are not seeking information on CEO or Mayoral remuneration
* We are not seeking information on CCO corporate support costs
* Short term or temporary positions can be excluded
* It may be necessary (particularly in small councils) to split the FTEs between functions because some staff may be multi-tasking ( e.g. a person 0.5FTE in HR and 0.5 FTE in records)
* Some of the listed corporate functions may have different titles in your council – we have tried to use the most widely used titles.

Could you please supply this information to me (using the table below) by **Friday 14 March 2014.**

Please email to; briansmithadvisory@xtra.co.nz

If you have any queries please email me or ring me on (03) 3236335 or (027) 440-3001

Thank you

Brian Smith (Consultant assisting the Local Government Commission)

**Please complete this table;**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Corporate Function Area* | *Notes* | *Full Time Equivalent (FTEs) as at 30 June 2013* | *Budget Annual Personnel costs 2013- 14 (000s)*  *(see note 13)* | *Comments ( optional for Council to make any clarifying comments)* |
| Finance | 1 |  |  |  |
| IT | 2 |  |  |  |
| Communications | 3 |  |  |  |
| Human Resources | 4 |  |  |  |
| Records | 5 |  |  |  |
| Customer Service | 6 |  |  |  |
| Mayoral/CEO support | 7 |  |  |  |
| Corporate Executive Support | 8 |  |  |  |
| Council and Committees secretarial support | 9 |  |  |  |
| Other specialist functions | 10 |  |  |  |
|  |  |  |  |  |
| Totals of above columns |  |  |  |  |
| Total of 2013/14 budget corporate costs to be allocated;  - Personnel costs  - other payments | 11 | N/A |  |  |
| Total Council FTEs (i.e. all staff as at 30/6/13) | 12 |  | N/A |  |

Explanatory Notes

|  |  |
| --- | --- |
| Notes | Explanation |
| 1 | Finance function encompasses those finance staff reporting through to the CFO/ Corporate Services Manager and **includes;**   * Financial Reporting * Financial Management/ budget setting and reporting * Rates and revenue/accounts receivable/cashiers team (includes rates database maintenance) * Treasury management staff * Accounts payable team * Payroll team * Financial Planning – LTP etc   Finance function **excludes** clerical staff placed inside other Council activities or departments and reporting to activity/departmental heads e.g. clerical assistant to water asset manager |
| 2 | IT function **includes**   * IT applications staff * IT systems/network administrators and systems engineers * IT support team * Information and data management (including GIS)   The IT function **excludes** those personnel working on new systems (where the input resource would be capitalised) or those IT staff attached to specific departments, such as data entry for asset management information systems. |
| 3 | Communications function **includes;**   * Media/publicity staff (ensure these are not double counted under Mayor/CEO support staff) * Staff(other than finance staff) involved in external publications and graphics e.g. Annual Reports, Strategies, newsletters etc * Web updating and maintenance * Intranet updating and maintenance * LG Official Information Act request responses |
| 4 | Human Resources function **includes;**   * Health and Safety co-ordinators (if this is a corporate function rather than departmental function) * Employee Assistance Programme staff * Training co-ordinators   Ensure there is no double up to Payroll staff under the finance function. |
| 5 | Records staff **includes;**   * Filing (e-filing and hard copy filing) * Scanning |
| 6 | Customer Service function **includes;**   * Reception staff – at main office and all service centres (ensure no double counting with cashiers) * Contact centre staff |
| 7 | Mayoral and CEO support staff **includes** executive assistants and personal assistants. Ensure publicity personnel are included in the communication function rather than here |
| 8 | Corporate executive support are those personnel (probably mainly personal assistants) supporting the second tier executive management team. This excludes the CEO support personnel. |
| 9 | Council and Committees secretarial support function includes;   * Secretarial servicing of Council meetings and council workshops( Agenda, minutes etc) * Secretarial servicing of community boards, liaison committees (including Iwi liaison committees) |
| 10 | Other specialist functions that provide a service across the whole of council could include;   * Procurement staff * Legal services staff * CCO monitoring staff * Internal Audit staff (ensure not double counted with finance) * Performance improvement or business analyst staff (ensure not double counted with finance) * Iwi liaison staff   And other specialist staff if relevant |
| 11 | We would like to know the total corporate cost overhead that is budgeted to be allocated to Council activities for 2013/14. If possible we would like the breakdown between personnel costs and other payments. If the budgeted cost has been revised through the year, please use the latest budget projections. |
| 12 | Total Council FTEs at 30 June 2013 should exclude;   * temporary staff * CCO staff   We would like the actual FTE figure at 30 June 2013 not the budgeted FTE |
| 13 | We are seeking the only the **personnel component** of the corporate support costs. This will include;   * Actual payroll costs * Any bonuses * ACC costs * The employer contributions for KiwiSaver or any other super scheme * Employer contribution or subsidy for health benefit schemes * FBT costs   Please exclude training or professional development costs. |