



# **URALLA SHIRE COUNCIL BUSINESS PAPER**

## **BUDGET REVIEW AND FINANCE COMMITTEE MEETING**

**12 March 2019**

Uralla Shire Council  
Budget Review and Finance Committee  
Business Paper – 12 March 2019

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1. OPENING & WELCOME .....	4
2. ACKNOWLEDGEMENT OF COUNTRY.....	4
3. APOLOGIES, REQUESTS FOR LEAVE OF ABSENCE .....	4
4. DISCLOSURES & DECLARATIONS OF INTEREST .....	4
5. ANNOUNCEMENTS .....	4
6. TABLING OF REPORTS & PETITIONS.....	4
7. URGENT SUPPLEMENTARY & LATE ITEMS OF BUSINESS .....	4
8. REPORTS TO COMMITTEE .....	4
Report # 1 Differences in Full Time Equivalent (FTE) Employee Numbers 2013 - 2018.....	5
9. MOTIONS ON NOTICE .....	16
There were no Motions on Notice to the 12 March 2019 Meeting .....	16
10. CONFIDENTIAL BUSINESS.....	17
There were no Confidential Reports to the 12 March 2019 Meeting .....	17



**- A G E N D A -**

# **Budget Review & Finance Committee Meeting**

**12 March 2019, 12:30pm, Council Chambers**

- 1. Opening & Welcome**
- 2. Acknowledgement of Country**
- 3. Apologies, Requests for Leave of Absence**
- 4. Disclosures & Declaration of Interests**
- 5. Announcements**
- 6. Tabling of Reports & Petitions**
- 7. Urgent Supplementary & Late Items of Business**
- 8. Reports to Committee**  
Report 1 - Differences in Full Time Equivalent (FTE) Employee Numbers 2013 - 2018
- 9. Motions on Notice**
- 10. Confidential Business**
- 11. Meeting Close**

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- 1. OPENING & WELCOME**
- 2. ACKNOWLEDGEMENT OF COUNTRY**
- 3. APOLOGIES, REQUESTS FOR LEAVE OF ABSENCE**
- 4. DISCLOSURES & DECLARATIONS OF INTEREST**
- 5. ANNOUNCEMENTS**
- 6. TABLING OF REPORTS & PETITIONS**
- 7. URGENT SUPPLEMENTARY & LATE ITEMS OF BUSINESS**
- 8. REPORTS TO COMMITTEE**



## REPORT TO COMMITTEE

<b>Department:</b>	<b>General Manager's Office</b>
<b>Submitted by:</b>	<i>GM and CFO</i>
<b>Reference/Subject:</b>	Report # 1 Differences in Full Time Equivalent (FTE) Employee Numbers 2013 - 2018

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### LINKAGE TO INTEGRATED PLANNING AND REPORTING FRAMEWORK

<b>Goal:</b>	4.3	Deliver the goals and strategies of the Community Strategic Plan.
<b>Strategy:</b>	4.3.1	Resource the organisation of Council adequately to provide the services and support functions required to deliver the goals and strategies detailed in this plan.
<b>Activity:</b>	4.3.1.1	Enhance the effectiveness of Council resourcing strategies and practices.
<b>Action:</b>	4.3.1.1.1	Review the organisation structure to enable delivery of agreed services levels and projects.

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### SUMMARY:

This report addresses the unaudited Full Time Equivalent (FTE) (i.e. staff employed by council) disclosure which is required to be incorporated into the annual General Purpose Financial Statements, on an annual basis, between the years 2013 and 2018.

The report's findings are based upon an interrogation of council's historical employee and wages data mapped against consistent assessment parameters for each year – so as to eliminate variation in data analysis.

The report, including Attachment A, finds:

- FTE employee numbers reported in the financial statements appear to be inaccurate.
- McMaugh Gardens, TCS and TCT account for the net growth in FTE.
- Based on 2014 actual employee costs, Industrial Award increases through to 2018 account for nearly 11% of the overall 16% employee cost increase. Step increases of staff salaries through their relevant salary grades is likely to account for much of the remaining increase, however that assessment has not as yet been undertaken.

### OFFICER'S RECOMMENDATION:

***That the Committee receive and note the Report.***

**Uralla Shire Council**  
**Budget Review and Finance Committee**  
**Business Paper – 12 March 2019**

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**BACKGROUND:**

Note 4 (expenses from continuing operations) within the General Purpose Financial Statements contains a line item for “Number of ‘full-time equivalent’ employees (FTE) at year end”. The reported FTE in council’s financial statements is unaudited and indicates that between the years 2013 - 2018: a) there appeared to be an 18% increase in FTE and; (b) there appeared to be dramatic fluctuation in FTE between the concurrent years of 2015 - 2018.

At the February Ordinary Meeting Councillor O’Connor requested that the General Manager provide to the Budget Review and Finance Committee a list of positions that have been created in the period 2015 to 2018.

Whilst Councillor O’Connor’s request does not constitute a resolution of the Council, it is relevant to the broader work being undertaken by the Budget Review and Finance Committee.

**REPORT:**

The matter of the apparent sharp increase in FTE between specific financial years and the noticeable sharp fluctuations in FTE over specific concurrent financial years is one which had been set down for staff to investigate as part of the 2019/20 draft budget. The request of Councillor O’Connor brings forward much of this work.

None of the staff in the finance team were employed by council in the years 2013 and 2014 and as a consequence of retirements and a recent resignation only one team member has been employed for more than 1.5 years. This discontinuity of staff and the potentially divergent methodologies for calculating FTE have previously been suspected as contributing factors to the stark variations in FTE between the 2013 – 2018 periods. The FTE as reported in the financial statements is summarised in Table 1.

Table 1

Year	2018	2017	2016	2015	2014	2013
FTE	136	120	132	114	105	106

The General Purpose Financial Statements disclosure of FTE is supposed to represent FTE as at 30<sup>th</sup> June - i.e. employees employed by council and who were paid in the last pay period of the year. However, there is no certainty that a consistent methodology has been applied to this calculation over the study period. This is evidenced by reference to the 2013 FTE (reported in the financial statement as being 106), which when divided by the Total Employee Costs (TEC) for that year results in an average employee cost of approximately \$83,500 verse the same calculation for 2018 which results in an average employee cost of about \$74,800. Either there is something wrong with the way FTE has been calculated or the average TEC has been reduced from \$83,500 in 2013 to \$74,800 in 2018, which is unlikely.

Therefore, in order to ensure the assessment of FTE follows the same methodology and ‘like is being compared with like’ over the study period, staff have undertaken a new assessment utilising the raw data from each year within the study period.

**Uralla Shire Council**  
**Budget Review and Finance Committee**  
**Business Paper – 12 March 2019**

The parameters used for each year in the study period were:

- Casuals were not excluded because they were engaged for duties on a regular and systematic basis.
- FTE numbers were calculated based upon the actual hours worked for a full year (excluding overtime) divided by standard hours.

The application of this methodology resulted in the following FTE (refer to Attachment A for further details):

Table 2

	2018	2017	2016	2015	2014	2013
<b>Administration#</b>	17	14	15	16	16	15
<b>Infrastructure</b>	62	59	59	64	63	59
<b>McMaugh</b>	26	25	24	22	22	22
<b>TCS/TCT/KADs/CS</b>	24	27	29	24	19	18
<b>Total*</b>	<b>129</b>	<b>125</b>	<b>127</b>	<b>125</b>	<b>121</b>	<b>113</b>

(\*) Rounded

(#) Administration includes: Governance, Risk/Safety, Records, IT, HR, Finance, Community Development, VIC Mgt, Customer Service, GM.

It is noted that during the study period (2013 – 2018):

- FTE increased by approximately 16 persons.
- 11 (accounting for rounding) of those 16 were employed at McMaugh Gardens, TCS, TCT or KADs (now discontinued). All FTE at McMaugh, TCS and TCT are 100% funded from revenue sources other than rates.
- 3 of the 16 were employed in Infrastructure/engineering (all positions were in the outdoor staff workforce), and
- 2 were employed in the administration

### Comparative assessment of Total Employee Costs (TEC)

An assessment of the wages paid during the period 2014\* – 2018 indicates that TEC (excluding travel and training costs), when indexed by the Award increases for each year of the study period from the base year of 2014, correlate well with the actual Total Employee Costs for each corresponding year. See Table 3 below:

Table 3

(\$'000)	2018	2017	2016	2015	2014*
<b>Actual TEC from financial statement</b>	10,184	9,637	9,916	9,412	8,773
<b>2014 actual TEC indexed by Industrial Award increase</b>	9,717	9,480	9,262	9,010	8,773

(\*) 2014 was used as the base year for this purpose as it had been used by staff as part of their assessment of FTE in the lead up to the draft 2019/20 budget.

**Uralla Shire Council**  
**Budget Review and Finance Committee**  
**Business Paper – 12 March 2019**

Table 3 demonstrates a clear and strong correlation between the actual TEC and the calculated TEC using the employee costs from 2014 and increasing them annually in accordance with award increases only (ie excluding for example ‘step’ increases through a pay ‘grade range’).

**Evidence that ‘Hours Worked FTE’ is more accurate than the ‘Financial Statement FTE’**

Table 4 is a comparative analysis between the ‘Average actual TEC based on the Financial Statement FTE’ – ie dividing the actual TEC within the financial statements by the FTE noted in the financial statements (Table 1) and the ‘Average actual TEC based on hours worked FTE’ – ie dividing the total hours worked by the hours worked FTE (Table 2). The 2014 actual average TEC indexed by the Industrial Award increase for each year between 2014 and 2018 has been included in Table 4 to enable comparison with the other two measures.

Table 4

	2018	2017	2016	2015	2014
<b>Average actual TEC based on financial statement FTE</b>	74,882	80,308	75,121	82,561	83,552
<b>Average actual TEC based on hours worked FTE</b>	78,648	77,208	78,117	75,437	72,800
<b>2014 actual average TEC indexed by Industrial Award increase</b>	80,632	78,665	76,859	74,766	72,800

There is a clear correlation between the “average actual TEC based on hours worked FTE” and the “2014 actual average TEC indexed by Industrial Award Increases” measures, and a generally poor correlation between either of those parameters and the “Average actual TEC based on financial statement FTE” measure.

This assessment casts further doubt over the reliability of the financial statement FTE (Table 1).

**Positions Created since 2015**

The review of Council’s payroll and accounting records with reference to organisational charts relevant to the study period indicate the following positions appear most likely to have been created or removed over the study period (refer to Attachment A).

Table 5

Positions Created (FTE)	IT	Gov/ Risk	H R	Records	Waste, Sewer, Water	McMaugh	TCS/TCT			
Sub total	1.7	1	1	0.5	0.4	4	5			13.6
Positions Removed (FTE)								Admin	Infrastructure	
Sub total								-4	-1	-5
<b>Total</b>	<b>1.7</b>	<b>1</b>	<b>1</b>	<b>0.5</b>	<b>0.4</b>	<b>4</b>	<b>5</b>	<b>-4</b>	<b>-1</b>	<b>8.6</b>

**Uralla Shire Council**  
**Budget Review and Finance Committee**  
**Business Paper – 12 March 2019**

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Based on the assessment contained in Table 5 it would appear the total net increase in the staff FTE since 2014 has occurred in McMaugh Gardens, TCT and TCS, all of which are 100% funded by non-ratepayer revenue sources.

For further assessment of the material contained within this report please refer to Attachment A.

Prepared by staff member:	Andrew Hopkins and Simon Paul
TRIM Reference Number:	TBA
Approved/Reviewed by Manager:	As above
Department:	General Manager's Office
Attachments:	Attachment A: Summary Full Time Equivalents

Uralla Shire Council  
 Summary Full Time Equivalents  
 Years Ended 30 June

Department	FTE Based on Hours Worked					
	2018	2017	2016	2015	2014	2013
<b>Admin</b>	17	14	15	16	16	15
<b>Engineering</b>	62	59	59	64	63	59
<i>Sub-total</i>	79	73	74	79	79	74
<b>McMaugh</b>	26	25	24	22	22	22
<b>Community Services</b>	24	27	29	24	19	18
<i>Sub-total</i>	51	52	53	46	42	39
<b>Total</b>	<b>129</b>	<b>125</b>	<b>127</b>	<b>125</b>	<b>121</b>	<b>113</b>
Three year average based on hours worked	<b>127</b>			<b>119</b>		
FTE as reported in annual Financial Statements	136	120	132	114	105	106
Three year average based on Financial Statement FTE	<b>129</b>			<b>108</b>		
Labour Hire actual - Jobs Australia only	\$18,771	\$116,911	\$100,461	\$7,961	\$69,099	\$47,861
Employee costs as % of total income	48%	46%	47%	44%	47%	47%
Employee costs as % of total expenditure including capitalised employee costs	50%	49%	46%	49%	47%	45%
Award increases	2.50%	2.35%	2.80%	2.70%	2.60%	
Note 4(a) Employee costs excluding tvl & training costs (\$ '000)	10,184	9,637	9,916	9,412	8,773	7,797
Prior year employee costs increased by award (\$ '000)	9,878	10,149	9,676	9,010	8,000	
2014 actual employee costs indexed by award increase through to 2018 - excludes grade & step increases (\$ '000)	9,717	9,480	9,262	9,010	8,773	
% increase of above 2014 employee costs indexed to 2018	10.76%					

## Budget Analysis

	2018	2014
Budgeted employee costs (\$ '000)	10,570	8,086
Budgeted FTE	132	114
Average budgeted employee cost based on budgeted FTE	\$ 80,130	\$ 70,992
Average budgeted employee cost based on financial statement FTE	\$ 77,721	\$ 77,010
Average actual employee cost based on financial statement FTE	\$ 74,882	\$ 83,552
Estimated FTE based on actual employee costs & budgeted avg wage	127	124
2014 average employee cost indexed using award increase only	\$ 80,634	

## Notes

Full time equivalent employees normally refers to the number of employees directly employed by an organisation at a point in time. Casuals should only be excluded if they are engaged for duties that are irregular or intermittent. Casuals have been included for USC. The financial statement disclosure is supposed to represent FTE as at 30 June i.e. employees paid in the last pay period of the year. FTE numbers noted above have been based on actual hours worked for a full year (excluding overtime) divided by standard hours. Some analysis has previously been conducted on 2014 budgeted and actual employee costs. Further comparisons are therefore made against this particular year. KADS ceased operations in the 2017 year but some KADS FTE were transferred to TCS.

## Findings

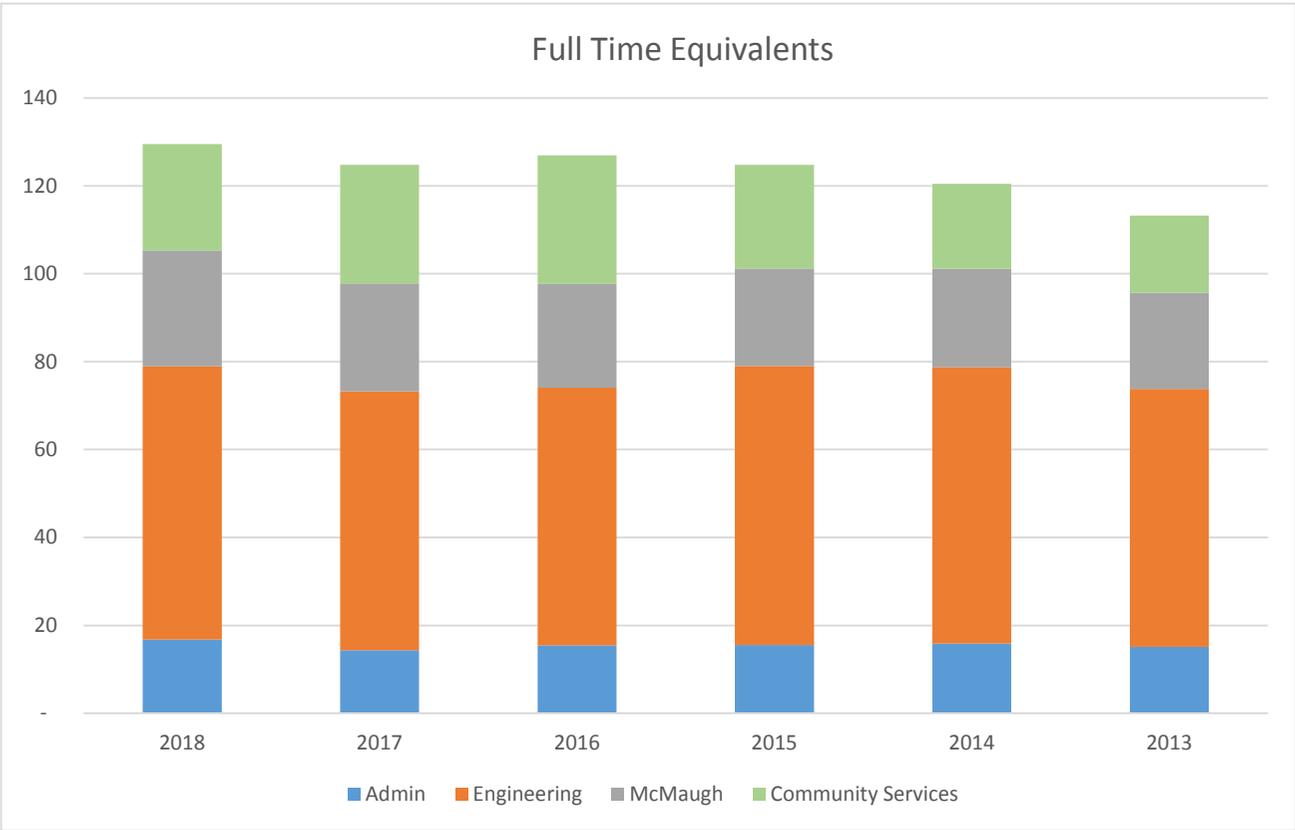
FTE employee numbers reported in the financial statements appears to be inaccurate. FTE numbers for Engineering in 2016 and 2017 appear low. If the significant contract employee costs paid to Jobs Australia are included, FTE would be approximately in line with other years. McMaugh Gardens staff numbers have increased in line with care levels. Comparing 2014 with 2018, the positions created include IT (1.7), Governance & Risk (1), HR (1), Records Management (0.5), Waste Water & Sewer Mgr (0.4), McMaugh (4), and TCS & TCT (5). These were offset by savings in administration of 4 and Engineering of 1. Generally, both the percentage of employee costs to income and expenditure have remained consistent from 2013 to 2018 - see graph. Generally, employee costs have remained in line with the annual award increases - see graph. Based on 2014 actual employee costs, award increases through to 2018 account for nearly 11% of the overall employee cost increase.

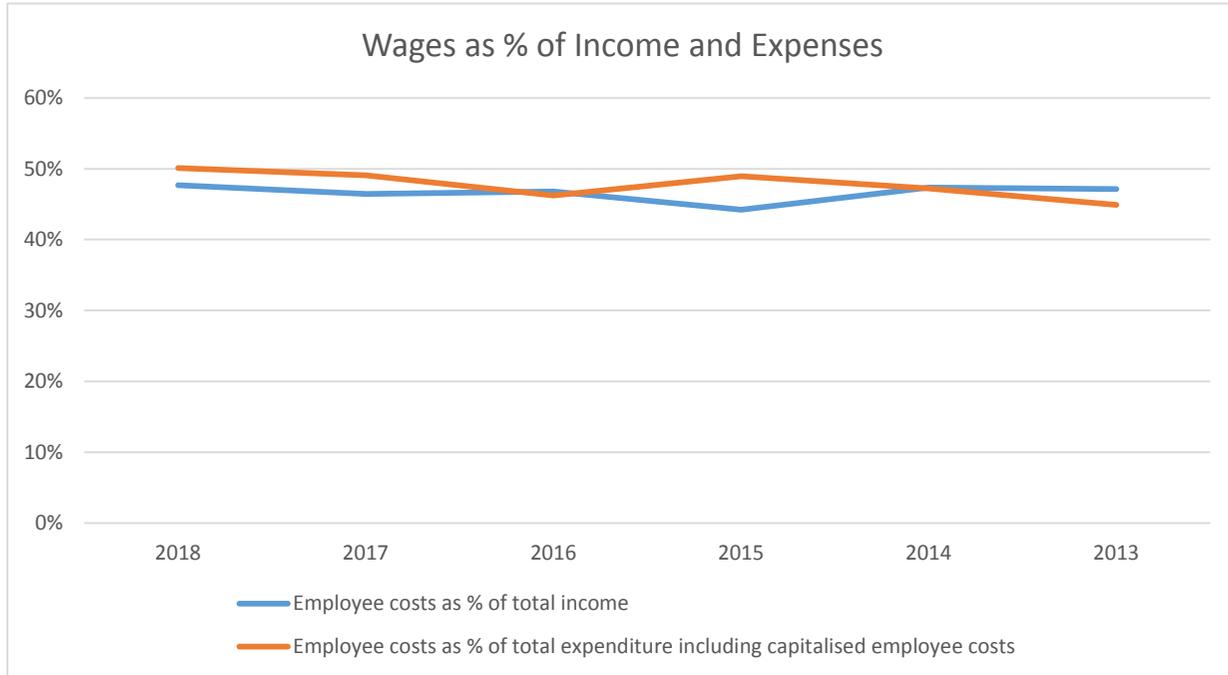
**Proof Hours Worked FTE is More Accurate than Financial Statement FTE**

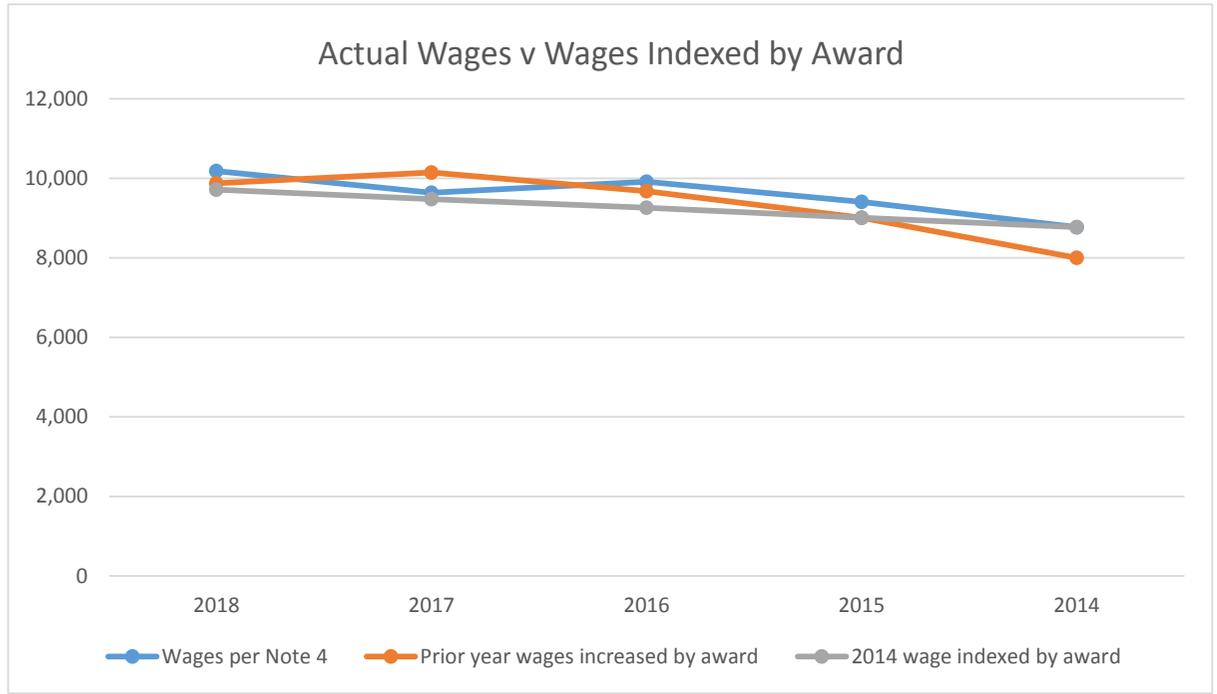
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Average actual employee cost based on hours worked FTE	\$ 78,648	\$ 77,208	\$ 78,117	\$ 75,437	\$ 72,800	
2014 average employee cost indexed using award increase only	\$ 80,632	\$ 78,665	\$ 76,859	\$ 74,766	\$ 72,800	
Average actual employee cost based on financial statement FTE	\$ 74,882	\$ 80,308	\$ 75,121	\$ 82,561	\$ 83,552	

Using 2014 as a base year, average budgeted employee costs were \$71K. Based on this average and actual employee costs paid in 2014, FTE should have been 124, not 105 as reported in the financial statements. This aligns more closely with the hours worked FTE of 121.

Continuing to use 2014 as a base year, if the average employee cost (based on hours worked FTE) is indexed by the award increase, the average employee cost in 2018 is closer to the average employee cost using hours worked FTE than it is to the lower average employee cost based on financial statement FTE. It is unlikely that average employee costs based on financial statement FTE would fall from \$83.5K to \$74.9K between 2013 and 2018.







## **9. MOTIONS ON NOTICE**

**There were no Motions on Notice to the 12 March 2019 Meeting**

## **10. CONFIDENTIAL BUSINESS**

**There were no Confidential Reports to the 12 March 2019 Meeting**

END OF BUSINESS PAPER