

Why are staff overheads? Or, is the accounting plumbing...

Published: January 13, 2026, 11:18 pm

I received a fascinating question the other day. My questioner, who I suspect would rather stay anonymous, asked:

Why are staff an overhead? When they add value to your business could they not be an asset?

It just seems that if any cut is announced the staff are the first to go because they are overheads and are the easiest things to shed. If staff were to be assets (adding value to the business) then savings would need to be found in places like cheaper electric or gas supplies harder in the elastic power market.

Now to most accountants that question would seem plain daft, if I'm honest. The answer is staff are an overhead because that's what the rules say and accountants abide by the rules.

Which means that accountants are all too often the ones who are plain daft because inside the question is the very obvious understanding that in a service activity (especially) people are the key to all value generation. And they're not an overhead as such - they are the profit centre.

But that's not the way that accounting, based on the prescription of capitalism wishes to see the issue. Accounting was organised on the logic that the focus of attention was the generation of funds for the owners - the capitalists. Anything that depleted the funds left to the owners was, therefore, a cost unless potentially resaleable when it became an asset, even if the value attributed was very often somewhat arbitrary.

This logic is now falling apart. The International Accounting Standards Board has decided that accounts are not now prepared on the basis that the sole users are the owners of the company. They think all suppliers of capital are users of accounts - but the impact has been to make the balance sheet as a whole rather than the bottom half of the balance sheet in isolation the focus of attention.

What if though there are no suppliers of capital, per se? For example, why are

International Financial Reporting Standards now being applied to local authorities when the concept of capital is irrelevant to them? How can measures designed for private sector use be applied to the public sector when it is very clear that the creation of a surplus to ensure repayment of capital is not the objective the activity? Isn't that just plain wrong? (To short cut your guess work - it's not just plain wrong it is patently absurd - so please stop the exercise now and save a great deal of money as a result).

But in that case why not refocus the accounts on the key relationship which exists in local authorities - which is the relationships between staff and the users of services? After all, isn't that what the whole thing should be about and not about "facilitation" as some made Tory councils think?

And in that case hasn't my questioner hit the nail on the head?

Its a sad day when it takes a lay person to ask the right question about accounting. But the truth is far, far too many accountants have no clue about accountability, and we see the consequence all around. If accounting is the plumbing of the economy then it's no wonder our economy is in a mess. We sure as heck have got the plumbing wrong.