

Three tiers?

COMPARING THE COST OF MANAGERS IN COUNCILS



The Accounts Commission is a statutory, independent body, which, through the audit process, assists local authorities and the health service in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources.

The Commission has five main responsibilities:

- securing the external audit
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in local government and the NHS
- issuing an annual direction to local authorities which sets out the range of performance information which they are required to publish.

The Commission secures the audit of 32 councils, 34 joint boards (including police and fire services), 15 health boards, 28 NHS trusts and six other NHS bodies. Local authorities spend over £9 billion of public funds a year and the NHS in Scotland spends over £4 billion.

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The Accounts Commission takes sole responsibility for the contents of this report. Comments and queries should be addressed to John Lincoln or Martin Christie.

Executive summary

Best Value requires councils to challenge existing ways of working and make comparisons with other councils. The objective of this study is to help councils to make informed decisions on their management structures by comparing themselves with other similar councils.

- The methodology involved external auditors identifying from councils' organisation charts who has responsibility for managing other staff, distinguishing managers from supervisors.
- The study focused on housing, social work, finance and libraries.

The number of managers as a proportion of total staff varies from 5% to 9%, depending on the particular service.

- Since managers get paid more than other staff, the cost of managers varies from 10% to 20% of total staff cost.
- In the four services examined, the total number of managers in Scottish councils was just under 3,000; the total number of staff was 51,000.

Councils need to ensure that resources are used efficiently and effectively, without creating bureaucracy.

- The number of managers needs to be established by each council, in the light of its local circumstances. It is difficult to take all these circumstances into account in a national study, and so this study has not sought to prescribe the appropriate number of managers for each council.

At first sight, there appears to be a wide variation among councils in the cost of managers.

- For example, in housing, the cost of managers per council dwelling per year varies among councils from £13 to £88.
- However, once account is taken of factors such as economies of scale and geography of the area served, the variation is less marked.

Councils will be challenged by auditors to review the comparative information supplied by the Commission and establish the appropriate number of managers for their circumstances.

- Councils will be expected to contact similar councils and explore their comparative costs of managers.
- Auditors will be reviewing each council's response to this report, and asking councils to prepare an action plan to implement changes, if required.
- Councils will be expected to take steps to remove unnecessary management overheads, where found.
- Conversely, where they are under-managed, councils will need to ensure that they have sufficient management capacity to deliver Best Value.

Introduction

Why compare the cost of managers?

The Best Value framework requires councils to demonstrate a commitment to identifying and introducing performance improvements. A critical part of such a commitment is ensuring that managers and other staff are constantly on the lookout for better practice in other organisations, in both the public and private sectors.

When the Local Government Studies Directorate of the Accounts Commission consulted councils about its 1998 programme of studies, the topic of management costs was accorded the highest priority by a considerable margin. After two years as unitary councils, many councils were about to review their management structures and costs, and they required good benchmarking information to inform their decisions.

Councils in Scotland spend £9 billion a year delivering services to the public. They directly employ 234,000 full-time equivalent staff and, in addition, contract work out to the private and voluntary sectors. Councils need sufficient managers to ensure that their staffing and other resources are used effectively to achieve the strategic aims of the council and to deliver the expected standards of performance.

There is a keen public interest in the number of managers employed by Scottish councils. The cost of managers is a necessary overhead, but it is important to establish the optimum level of management. Partly because of financial pressures, councils are reviewing their management structures and the numbers of managers they employ. They wish to make savings while minimising any effects on front-line services.

Study scope and objectives

Benchmarking helps councils to deliver continuous improvement by comparing and challenging existing practices and performance levels. The Accounts Commission's recent publication, *'Measuring up to the best, A manager's guide to benchmarking'* (January 1999), provides guidance in this area.

In conducting this study, the Commission wishes to assist councils to get their cost of managers right by benchmarking their position on a like-for-like basis with other councils, based on validated information.

It was not practical to cover all council services. The study, therefore, concentrated on a selection of services, by looking at:

- social work and housing services - both significant council services in terms of expenditure and staffing
- corporate finance services - the largest of councils' central support services
- library services.



"Councils in Scotland spend £9 billion a year ..."

Although education is the largest service provided by councils in terms of staff numbers and cost, schools account for the vast majority of managers involved in providing education services. Management structures in schools are a distinct area. They were considered briefly in a report by the Commission and Her Majesty's Inspectors of Schools on school administration, '*Time for teaching*', (February 1999) and were examined as part of a joint COSLA /SJNC enquiry (the Millennium Review).

During the course of the study, a number of indicators have been developed to assist councils to compare their cost of managers with other, similar councils. For example, for the housing service the indicators include:

- the cost of managers per lettable dwelling
- the cost of managers as a proportion of total staff cost
- the cost of senior managers as a proportion of all managers.

It is important to emphasise that the study identified the cost of managers, using a robust and consistent definition of who constituted a manager. This is not the same as the cost of management functions. For example, the housing management function includes the cost of a variety of staff involved in collecting rent, managing allocations and so on. The study focused on managers, because the council has discretion over how many managers it appoints for any level of service and because managers have to justify their role in terms of the value they add to the work done by other staff.

A popular misconception is that the smaller the number of managers the better the deal for council tax payers. However, councils would be hard pressed to deliver the Best Value agenda without a reasonable number of managers, so a low cost of managers is not necessarily desirable in itself.

The main aim of the study is to assist councils to get their cost of managers right by:

- identifying the key drivers that affect the cost of managers in the services examined
- developing key indicators for councils to use in benchmarking their performance
- using the results of the benchmarking exercise to identify areas where councils could take action to improve their performance.

The study has not attempted to compare councils with other public sector bodies, the voluntary or private sector. It may be feasible in the future to do this for some services (eg, to compare councils with housing associations) or parts of services (eg, the payroll function), now that a robust methodology has been established.

It is not an objective of the study to prescribe a particular number of managers that would be appropriate for individual services, nor to advocate that councils should aim for the lowest level of management cost. The appropriate level of managers depends on many factors, not all of which can readily be taken into account in a national study: for example, the calibre and experience of front-line staff, the frequency of council meetings, the management style of the council, and so on.

A central team within Commission HQ led the study. The work involved local external auditors collecting and validating data on councils' management numbers, salary cost and structures. The information on the cost of managers was collected during the spring of 1998. The principles drawn from the analysis are valid even though some councils may have changed their staffing structures since then.

The cost of managers cannot be examined in isolation and requires to be considered in the context of the way that services are provided. For each of the four services covered, the study team gathered information on:

- individual council policies that may impact on the cost of managers - for example, decentralisation of services to local offices and 'one-stop shops'
- factors that may have an impact on the numbers of managers and structures - for example, whether the council is in an urban or rural environment.

Details of the study approach and methodology are given in Appendix 2.

The Commission has provided councils with benchmarking software with the indicators developed during the course of this study. Councils are already using the software as an analytical tool to assist them to benchmark their performance in the four services covered by the study.

Local auditors will be following up how councils have been using the benchmarking information to identify areas where councils could take action to improve performance.

Impact of local government reorganisation

Before local government reorganisation, nine regional councils, 53 district and three islands councils managed council services. On the Scottish mainland, reorganisation involved the creation of 29 unitary councils, each having new management structures. Because the former regional and district councils provided different types of services, bringing these services together has had different implications for individual services. For example, the number of mainland councils providing social work services increased from nine to 29, whereas the number of mainland councils providing housing services decreased from 53 to 29. The position for finance departments is more complex, as the finance services were created by disaggregating regional functions and combining them with merging district functions.

Local government reorganisation caused some disruption. The process resulted in councils losing large numbers of experienced and qualified staff, many of whom held management positions. Councils were also competing for high-quality staff. During the period of reorganisation, the primary concern of councils was to ensure that their front-line services were not disrupted by the organisational upheavals taking place at that time.



"Local auditors will be following up how councils have been using the benchmarking information ..."

The management structures of the new unitary councils, devised in 1995 by the shadow councils, were initially an amalgamation of the management structures of both the former regional and district functions. Many new councils did not know until the last moment which staff would be transferring to them. As a consequence, management structures were sometimes created in haste, with little objective information available to councils on which to base their decisions. In some cases, structures were created to accommodate the number of staff transferring from the predecessor authorities. Councils recognise that such structures may not be sustainable in the longer term and are worthy of review.

Reorganisation has provided councils with an opportunity to harmonise certain functions, most notably those that had been separate departments in the former district and regional councils but which could reside in one department (for example, school and public library services). The Accounts Commission report, *'Better together?'* (May 1999), provides guidance to councils on ways of reconfiguring services to improve quality and/or efficiency.

Defining and assessing the cost of managers

For the purposes of this study we have consulted on and devised a methodology that is robust but straightforward to apply. It is based on an analysis of filled posts in each of the services studied. It entails identifying the number of managers from a service organisation chart and calculating the cost of these managers based on their salaries.

The following pragmatic definitions were adopted for the purposes of the study:

- A manager always has line management responsibility for other staff and normally is accountable for the use of physical, human and financial resources.
- A senior manager is a manager who has responsibility for strategic and policy matters as well as for the direction and control of management resources. In addition, a senior manager is usually a member of the management team for that service and manages other managers.

Also, supervisors were classified as non-management staff and were distinguished from managers. A description of the methodology employed to calculate the cost of managers is included in Appendix 2.

The cost of managers in the services examined

The number of managers varies from approximately 5% to 9% of staff, accounting for approximately 10% to 20% of staff costs (Exhibit 1). In total, the services examined in this study employ 534 senior managers, 2,296 operational managers and 48,600 other staff. Because of the different way each service is delivered it is not appropriate to compare the cost of managers between services. For example, the housing service figure covers only the client side of the housing function whilst the social work service figure includes all staff involved in delivering the social work service.

Exhibit 1: The numbers of managers and their salary costs in the four services examined

The cost of managers is approximately 10% to 20% of the cost of staff.

	Number of managers	Salary cost of managers £million	Total number of staff	Total staff salary cost £million	Managers as a percentage of total staff	Cost of managers as a percentage of total salary cost
Housing	542	15.5	8,364	107.9	6.5%	14.4%
Finance	471	15.5	5,155	78.4	9.1%	19.8%
Social work	1,672	42.7	34,966	466.2	4.8%	9.2%
Libraries	145	3.7	2,992	39.4	4.8%	9.4%

Source: Accounts Commission analysis of local audit returns

In broad terms, there is little variation in the average salary of managers for the council services looked at. The main driver for the total cost of managers in councils is therefore the number of managers employed rather than their salary placing.

The salaries of senior managers do, however, vary. Exhibit 2 shows the salary ranges for senior managers in the four services examined. Senior managers responsible for the larger services generally receive higher salaries. The exception is the finance service. The difference between the upper and lower quartiles (the inter-quartile range) is very similar in all of the services.

Exhibit 2: Salary ranges for senior managers

Managers of the bigger services tend to receive higher salaries.

	Upper quartile	Median	Lower quartile	Difference between upper and lower quartile
Housing	£47,103	£39,000	£31,779	£15,324
Finance	£54,354	£43,713	£38,302	£16,052
Social work	£48,312	£43,029	£32,499	£15,813
Libraries	£46,191	£36,145	£30,330	£15,861

Source: Accounts Commission analysis of local audit returns

Comparison of numbers of managers with Joint Staffing Watch information

Accurate benchmarking data on the cost of managers has not been readily available in the past. The most common source of information used by councils to monitor their management and staffing numbers is the Quarterly Joint Staffing Watch Return produced by The Scottish Executive and COSLA. However, these returns are based on analyses of staff numbers grouped by salary bands.

The salary bands used are defined as follows:

- **Band A1:** APT&C staff and chief officers paid at or above spinal column point 66 on the APT&C scale. At the time of the study these staff were earning £44,076 per year or above.
- **Band A2:** other chief officers, and APT&C staff paid between spinal points 50 and 65 on the APT&C scale. At the time of the study these staff were earning between £30,330 and £43,029 per year.
- **Band B:** APT&C staff paid between spinal points 31 and 49 on the APT&C scale. At the time of the study these staff were earning between £18,636 and £29,658 per year.
- **Band C:** APT&C staff paid between spinal points 1 and 30 on the APT&C scale. At the time of the study these staff were earning up to £18,066 per year.
- **Other:** this covers staff mainly employed under local authorities' manual terms and conditions of service.

Council staff in bands A1, A2 and B are regarded by many councils as being in management grades. Exhibit 3, overleaf, compares the number of senior managers and operational managers derived from our study with the Staffing Watch nearest equivalent.

Exhibit 3: Comparison of numbers of managers with Joint Staffing Watch information

The information collected for this study paints a different picture from the Staffing Watch information, particularly for operational managers.

	Housing	Finance	Social work	Libraries
Senior managers				
Number of senior managers	144	146	192	52
Staffing Watch senior managers (Band A1+A2)	145	207	282	54
Operational managers				
Operational managers	398	325	1,480	93
Staffing Watch Band B	936	829	6,583	362
Total managers				
Number of managers (total)	542	471	1,672	145
Staffing Watch total managers (A1+A2+B)	1,081	1,036	6,865	416
Managers as a percentage of Staffing Watch figures	50%	45%	24%	35%

Source: Joint Staffing Watch, March 1998 housing and social work, December 1997 finance and libraries, and Accounts Commission analysis of local audit returns

There are clear differences between the information collected for this study (based on what staff do) and Staffing Watch information (based on what staff get paid). The number of senior managers found in this study and staff in bands A1 and A2 in the Staffing Watch information are close for housing and libraries and within 50% of one another for the other two functions. However, there are much larger differences between the number of operational managers and staff classified as Band B in the Staffing Watch information. Exhibit 4 lists the job titles of a number of staff that would be included in Band B of the Staffing Watch information but are not managers as defined by this study.

One of the benefits of our study is that it classifies managers according to the job they actually perform, giving a more accurate picture of the numbers of managers employed by councils.

Exhibit 4: Typical non-manager posts included in Band B of Staffing Watch information

The Staffing Watch includes staff who may be part of the overall management function, but who do not themselves usually manage other staff.

Housing	Finance	Social work	Libraries
research & development officer	accountant	social worker	area librarian
housing officer	auditor	senior social worker*	assistant principal archivist
policy review officer	insurance officer	support services accountant	systems development manager
energy manager	risk management officer	planning officer	collections co-ordinator
repairs co-ordinator	computer auditor	internal verifier	management information officer
marketing officer	senior salaries & wages officer	residential resource worker	
senior participation development officer	research officer	assessment & review officer	
procurement officer	corporate research officer	children's rights officer	
IT network manager		development officer ethnic minorities	
district heating manager			
race equality officer			

*Note: In some councils, senior social workers may take on a manager's role. However, to ensure a consistent basis for comparison between councils, senior social workers were defined as being in a supervisory role for the purposes of this study.

Source: Accounts Commission

Comparing the cost of managers among councils

The number of managers and staff employed by councils broadly rises in proportion to the volume of service provided. For example, Glasgow City (the largest council) spends £246 million a year on housing services - over 20 times the amount of the smallest mainland council, Clackmannanshire. Glasgow employs some 2,100 housing staff, 26 times as many as Clackmannanshire, and employs 92 managers compared with 14 employed by Clackmannanshire. The fact that these councils' management ratios are not the same does not necessarily imply that either is under- or over-managed. Before such an assessment can be made each council would need to make like-for-like comparisons with councils which have similar local circumstances and service characteristics.

In this study, the cost of managers has been expressed in relation to key drivers of workload, where such workload factors were available. In housing, the key measure is the number of council dwellings; in finance it is total council expenditure; in libraries it is the number of issues of books and other media. In social work, where there is not a consensus on an overall measure of workload, the number of managers was expressed in relation to total social work expenditure.

We used two techniques when comparing the cost of managers:

- linear regression
- family groups.

It would be interesting to combine these techniques by undertaking regression analysis at the family group level. However, the relatively small number of councils within Scotland precludes such detailed analysis.

Linear regression

Where we have been able to identify the key drivers of the cost of managers (as in housing), a statistical technique known as regression analysis has been used to calculate an expected cost of managers given the value of the key drivers.

It must be emphasised that linear regression does not calculate a figure for the 'right' cost of managers for a particular council. It does, however, allow us to create a 'level playing field' which takes account of the major causes of variation in the cost of managers among councils.

It is not possible for regression analysis to take account of all the local factors that may affect the number and cost of managers required in an individual council. Furthermore, different statistical analyses may give slightly different predictions. Therefore, this study has not sought to prescribe the number of managers each council needs. However, the analysis can be used to identify services where the cost of managers is different from that which would be expected for their circumstances. This will allow councils to identify areas worthy of detailed review as part of their Best Value review process.

There is a margin of error involved in calculating the expected number of managers, and for this reason we have drawn attention to councils where the actual and expected cost of managers are substantially different.

Family groups

To complement the regression analysis, family groups of councils have been established for housing, social work and libraries. Councils in each group have similar external factors which influence the way each service is delivered.

Comparing performance among councils within each family group is more robust than making all-Scotland comparisons. However, as with regression analysis, there is a limitation inherent in using this technique in Scotland because the 32 councils vary widely in terms of their area, population and socio-economic characteristics. The family groups suggested here are not intended to be definitive. Councils may wish to set up their own families based on the groupings described here or by using other criteria.

Councils should not be constrained to benchmarking their performance only within the designated family groups. Benchmarking is often thought of as a technique for comparing like with like. However, best practice may not exist within a council's family group and councils are encouraged to draw wider comparisons with other councils, and other bodies.

The Accounts Commission has provided councils with software that allows them to create their own family groups when using the indicators collected during this study to compare their performance with other councils. Details of the family groups are given in Appendix 3.

Factors affecting the cost of managers

When comparing councils, it is important to identify the factors that may be influencing the number and cost of managers. These factors can include:

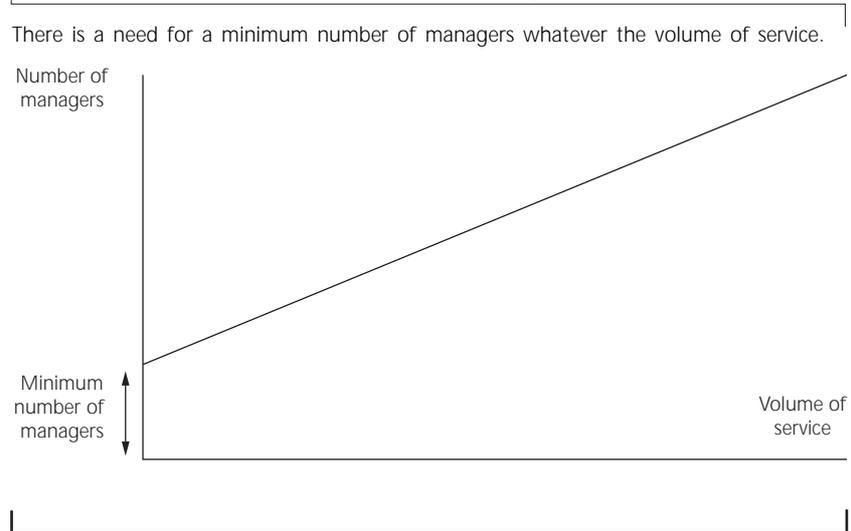
- **Economies of scale:** in most services there is a minimum critical mass of managers. This means that larger councils are able to achieve lower unit costs of managers than councils providing similar services to smaller populations. The study found evidence of strong economies of scale⁷ in housing, library and finance services, but less strong in social work services. This may be because the number of managers and staff in social work in the smallest councils is high relative to the other services. For example, it is equivalent to that in housing services in the larger councils. Exhibit 5, overleaf, illustrates the concept of economies of scale.
- **Bureaucracy:** very large organisations may have managers who themselves need to be managed. The service may become over-bureaucratic by creating additional tiers of managers whose main purpose is to co-ordinate the work of other managers. The cost of managers may begin to rise unless measures to prevent the growth of bureaucracy are put in place. Measures include:
 - good communications
 - effective use of IT
 - performance management.

⁷ The term 'economy of scale' is used here to indicate that councils with a large volume of service generally have lower unit costs of managers than those with a small volume of service.

- **Geography of the area served:** widely dispersed local communities can have an influence on the location and level of provision of council area offices. This may have implications for the management structure and therefore the number of managers.
- **Local council policies:** council policies vary, for example regarding the decentralisation of services. This can have significant implications for the management structure adopted by a council.
- **Remuneration policy:** in certain councils all heads of service get paid the same salary. This can mean that managers in smaller services cost more than their counterparts in councils where salary relates to the size of service.
- **Characteristics of the service:** each service has its own characteristics and management requirements, and valid comparisons are rarely achievable between services.
- **Tiers of managers/spans of control/staff productivity:** generally, the more staff a council service employs, the more tiers of managers it tends to have. However, the study has found that some councils have one tier more than other councils even though they have similar numbers of staff. Also, in social work it appears that many councils choose a particular span of control that influences both the ratio of managers to senior social workers and the ratio of senior social workers to social workers.

This study has not reviewed in detail the quality of service achieved by each council, although at the local level some auditors will be looking at this. However, based on the evidence from the performance indicators that were available, the study did not find that council services with a higher cost of managers generally achieve a higher level of performance. More detailed investigation would be required before firm conclusions could be drawn.

Exhibit 5: Economies of scale in the cost of managers

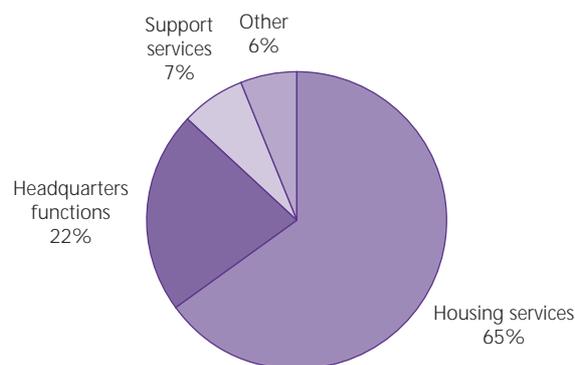


The cost of managers in the housing service

Of the 542 council housing managers in Scotland, the majority (65%) are responsible for managing housing services (ie, housing allocations and lettings, client-side repairs and the maintenance and supervision of housing estates). About one in five managers is involved in the housing headquarters function (housing strategy, planning and performance review). A number of larger councils have in-house support services such as personnel and finance services.

Exhibit 6: Analysis of housing managers by function

The majority of managers manage housing services rather than headquarters functions.



Source: Accounts Commission analysis of local audit returns

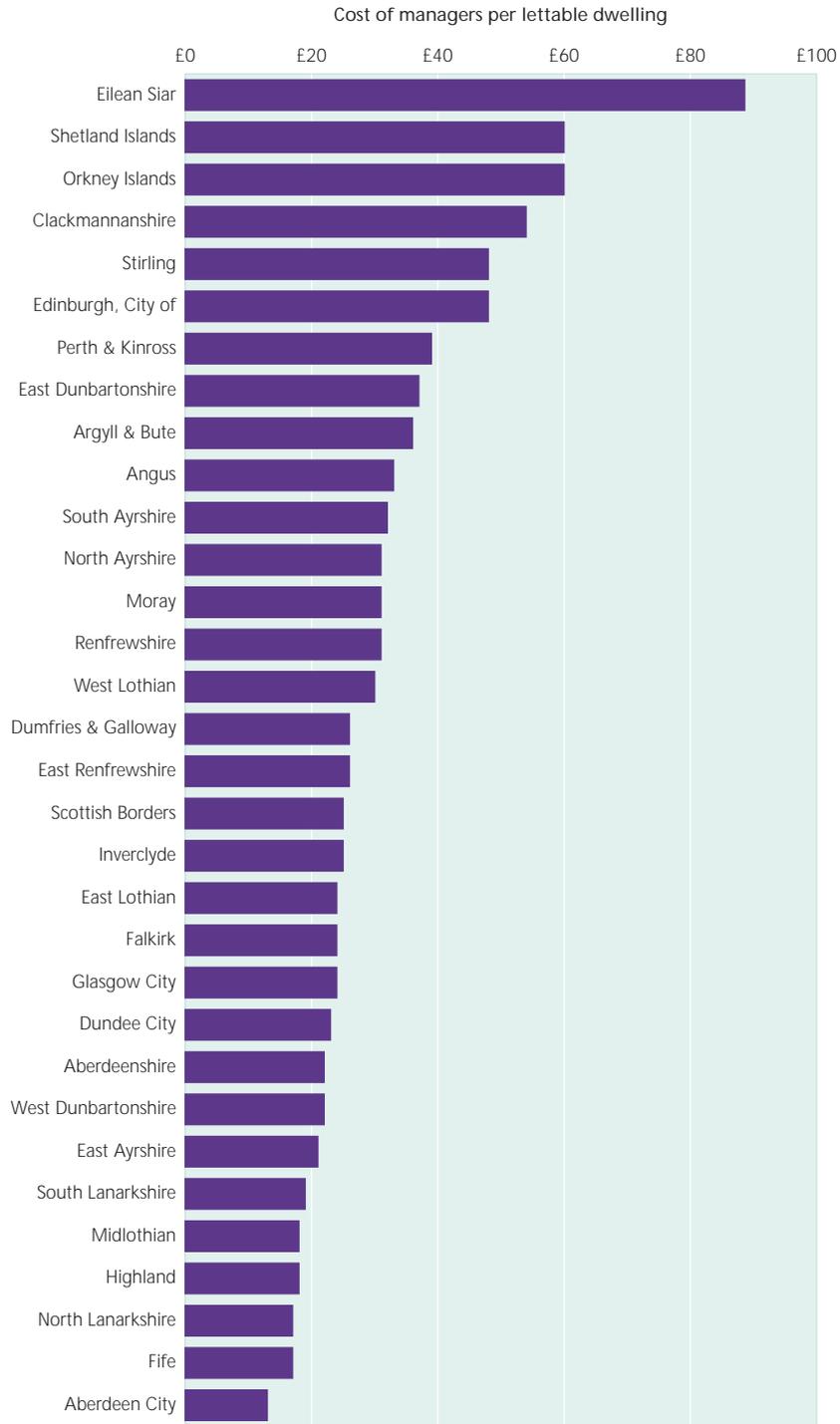
At the time of the study, in 19 councils the housing department was responsible for the collection of rent from council tenants. In the remaining 13 councils, responsibility for rent collection lay with the finance department. For the administration of housing and council tax benefit, the finance department took the lead role in 27 councils. In the remainder of councils the housing department carried out this function. These differences in functions do not substantially affect the comparison of the cost of managers.

Variations in the cost of housing managers

Across the 32 councils there is at first sight a wide variation in the cost of managers. In 1998, the average cost of managers per dwelling per year in Scotland was £25.50, about 1.5% of the rent due, varying at the extreme from £13 to £88 (Exhibit 7, overleaf).

Exhibit 7: The cost of managers per lettable dwelling

There are wide variations in the cost of managers among councils.

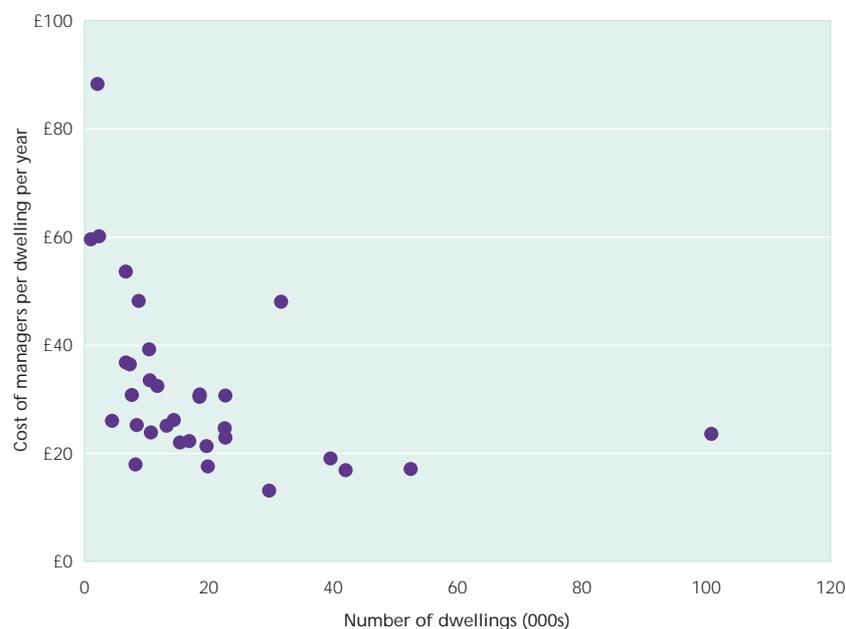


Source: Accounts Commission analysis of local audit returns

However, on closer examination, after taking account of economies of scale, the variation is less marked (Exhibit 8). The cost of managers per dwelling can be seen to fall as the number of houses a council manages increases.

Exhibit 8: The cost of managers per lettable dwelling

Councils with fewer dwellings tend to have a higher cost of managers per dwelling.



Source: Accounts Commission analysis of local audit returns

Main drivers affecting the cost of managers in housing

Statistical analysis using multiple linear regression was used to establish the main factors contributing to the variation in the cost of housing managers. In this analysis, two factors explain about 85% of the variation in the cost of housing managers among councils. These are:

- the number of lettable council dwellings
- the number of housing area offices.

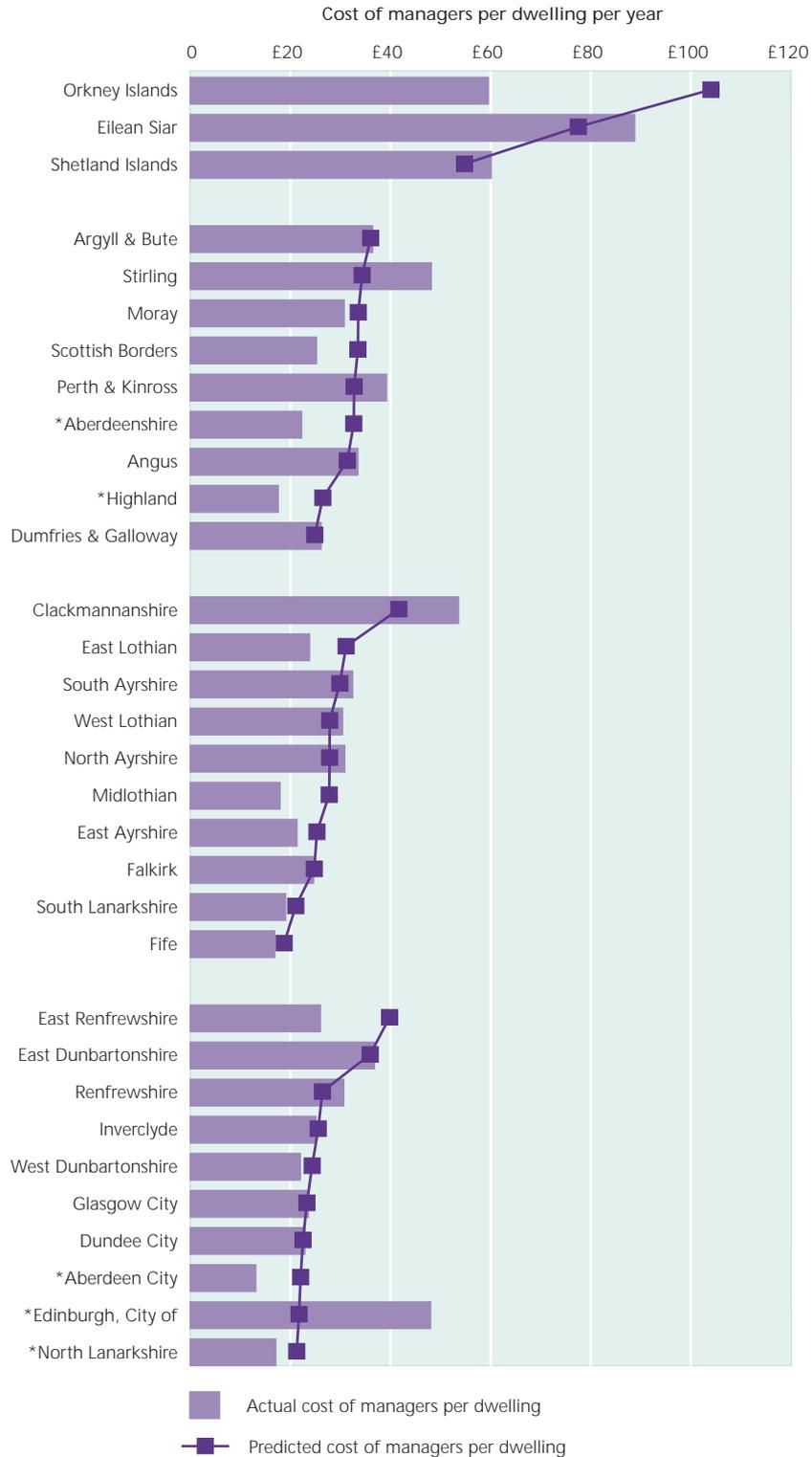
An alternative analysis would have been to use only the number of dwellings managed by the council. However, the number of area offices tends to reflect the geography of the area, and a high number of area offices for a given housing stock usually involves additional area managers, leading to a higher cost of managers per dwelling.

Analysis for this study indicates the minimum cost of managers in housing services is around £75,000 (about the equivalent of three managers). It is this factor that leads to the economies of scale shown in Exhibit 8. Above this baseline figure, the cost of managers in housing is roughly proportional to the size of the housing stock and the number of area housing offices.

Exhibit 9, overleaf, shows the actual and expected cost of managers per dwelling for each of Scotland's councils. In the smaller councils, where the expected number of managers is quite low, an apparently large difference between actual and predicted cost per dwelling may result from a small difference in the actual number of managers. For example, in Orkney Islands council the difference between actual and expected cost of managers is less than two managers. Some of the differences in the exhibit are not statistically significant, being within the margin of error of the analysis.

Exhibit 9: Comparison between the cost of managers and the cost predicted by statistical analysis, for each council family

For most housing services, the cost of managers is close to their expected value.



Note: * indicates that the difference between actual and predicted cost represents more than five managers.

Source: Accounts Commission analysis of local audit returns

The majority of councils showing a higher than predicted cost of managers per dwelling are small, mainly rural councils. In most of these the difference between the actual and expected unit cost of managers is less than two full-time posts.

In five large councils, the cost of managers is substantially different from their predicted value. Aberdeen City, Aberdeenshire, Highland and North Lanarkshire councils have a significantly lower than predicted unit cost, while the City of Edinburgh's cost per dwelling is significantly higher than predicted by the regression model.

Factors that may contribute to councils having lower than predicted cost of managers per dwelling include:

- area housing managers being responsible for more than one area office
- some housing departments not including services normally undertaken as a housing function. For example, Aberdeen City is currently the only council in Scotland where housing services do not have responsibility for the client side of the housing repairs function.
- rent collection being managed outside the housing service
- the housing department having support and other functions being provided and managed outside the housing department.

Factors that may contribute to the City of Edinburgh having higher than predicted unit cost of managers for housing include:

- a wider range of housing functions because of the council's city status. For example, there can be greater demands on such councils for hostels for the homeless and caretakers for high-rise housing. All of these can result in pressures for an increased number of managers
- central support functions located within the housing service
- other staff not normally located in housing services, such as Technical Operations (providing architectural and building services functions) and IT staff.

The cost of managers does not appear to depend on whether a council has a stand-alone housing department or whether the housing service is combined with other departments such as social work or finance. This may be because some mergers of departments affected only the top tier of managers.

There is no correlation between higher or lower than expected cost of managers and a range of efficiency or effectiveness measures - for example, the rent loss due to voids or current arrears.

In addition to economies of scale and the factors influenced by council policy (number of area offices, functions undertaken), some of the variation among councils in the cost of managers may be due to the efficiency and effectiveness of managers. Generally, however, such factors appear to have less impact than the factors described above.

Factors to consider when reviewing management structures in housing services

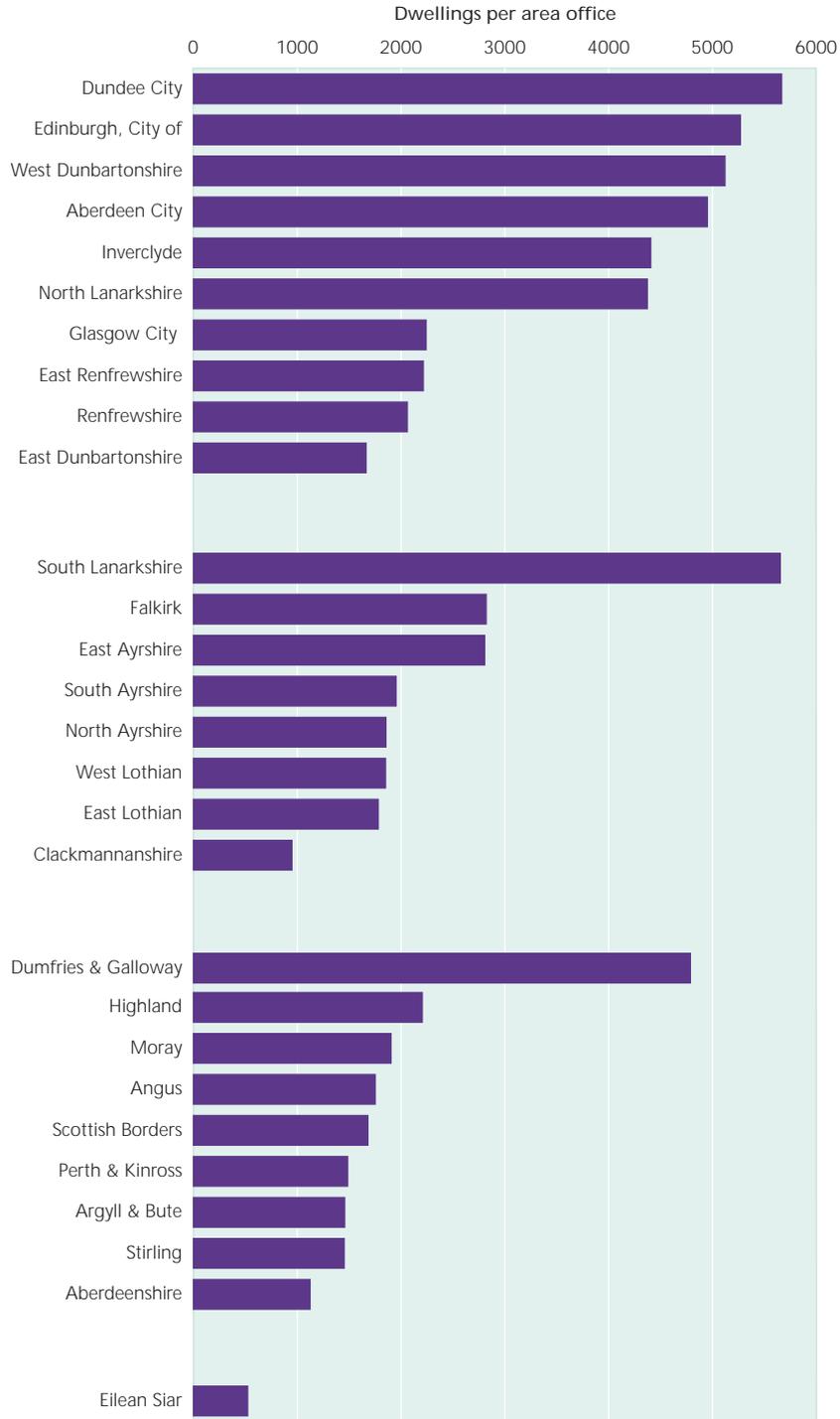
Area offices are an important means of decentralising housing services and of making them more accessible to tenants. In the majority of councils with an area office structure there is a one-to-one relationship between the number of area housing managers and the number of area offices. For a similar-size housing stock, councils with a higher number of area offices will, therefore, tend to have a higher cost of managers per dwelling. However, the number of dwellings per area office does not appear to have an effect on overall staff cost, presumably because the staffing in each area office can be readily adjusted to meet the workload.

Exhibit 10 shows the average number of houses served by an area housing office for councils which have more than one area office. Urban councils generally have the highest number of houses served per area office as their housing stock is largely concentrated in a small number of areas. On the other hand, the housing stock of rural councils is generally spread over a wide area, which creates pressures for local area offices serving small communities.

To some extent, councils are able to influence their area office structure and hence their cost of managers. For example, consideration could be given to making area housing managers responsible for more than one local area office.

Exhibit 10: Dwellings per area office by family group

Councils in urban areas tend to have a higher number of dwellings per area office.



Source: Accounts Commission analysis of local audit returns for councils having more than one area office. Four councils are, therefore, omitted.

The cost of managers in the finance service

The functions of council finance departments

Councils' finance departments make up the largest central support service in Scottish councils. The responsibilities of finance departments vary among councils depending on:

- whether a function, eg pension fund administration, is undertaken by the council
- whether a function, eg rent collection, is undertaken by the finance department or another council department
- the extent of delegation of finance functions to service departments. For instance, accountancy staff in larger councils may be devolved to service departments, reporting to managers in that particular service rather than to the director of finance (in which case they will not have been counted as finance staff in this study).

The table below illustrates some of the variations in finance department functions.

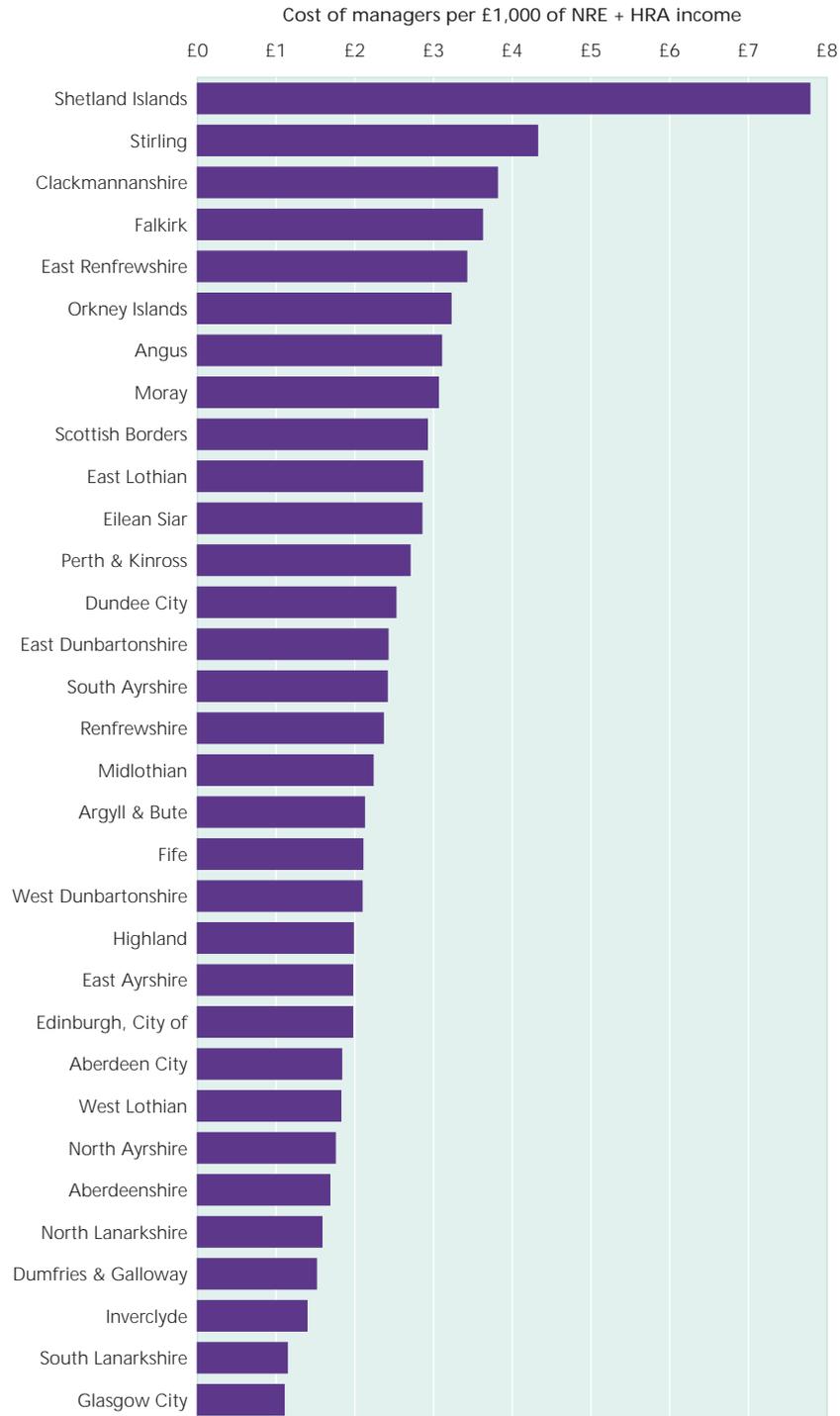
Function	Council function?	Finance department function?
Council tax collection	All	All
Non-domestic rate collection	All	All
Accountancy	All	All
Internal audit	All	All
Debtors	All	All
Creditors	All	All
Payroll	All	All
Risk management and insurance	All	Most councils
Benefits administration	All	Most councils
Rent collection	All	Some councils
IT	All	Some councils
Pension funds	Some	11 councils
Police force accounts	Some	8 councils
Fire brigade accounts	Some	8 councils
Bridge board accounts	Some	2 councils

Variation in the cost of managers

Across Scottish councils, the cost of finance department managers represents approximately £2 for every £1,000 of total expenditure (0.2%)². There is an eight-fold variation among councils, from 0.1% of council expenditure in larger councils to 0.8% in a small council (Exhibit 11).

Exhibit 11: Cost of finance department managers per £1,000 of expenditure

There is a wide variation among council finance departments in the cost of managers.



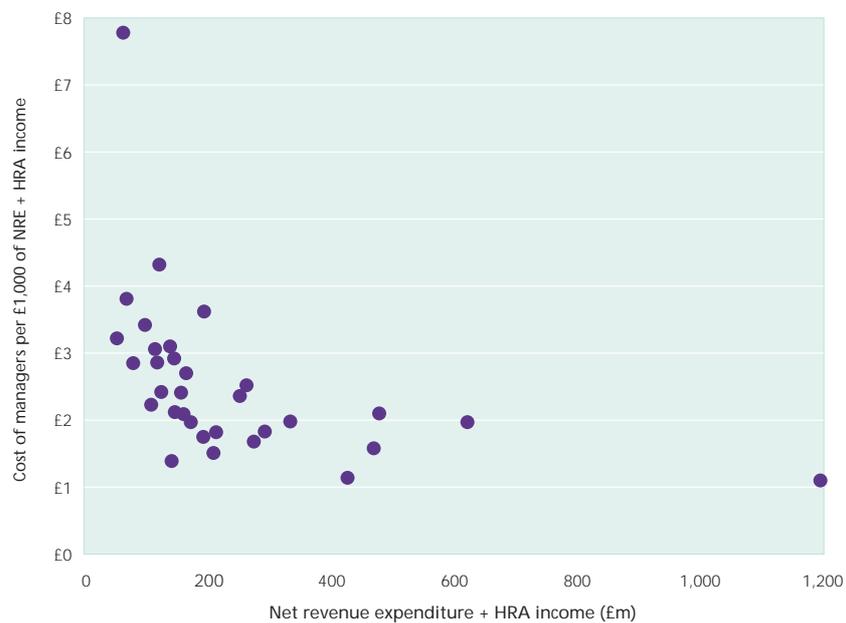
Source: Accounts Commission analysis of local audit returns

² The cost of managers for the finance service is expressed in this report as the managers' salary cost as a proportion of net revenue expenditure (NRE) plus gross rental income from an authority's Housing Revenue Account (HRA).

Some of the variation will be because of the variation in the functions described above while some will be because of economies of scale. To illustrate the effect of economies of scale among finance departments, the cost of finance managers as a proportion of council expenditure is shown against council expenditure (Exhibit 12). The councils with lower expenditure tend to have a higher cost of managers per thousand pounds of expenditure, although this is not always the case. An analysis of the cost of managers indicates that there is a fixed cost of finance managers of approximately £200,000 required in all councils regardless of the size of the council.

Exhibit 12: The cost of finance managers as a proportion of council expenditure versus council expenditure

Smaller councils tend to have a higher cost of managers as a proportion of expenditure.



Source: Accounts Commission analysis of local audit returns

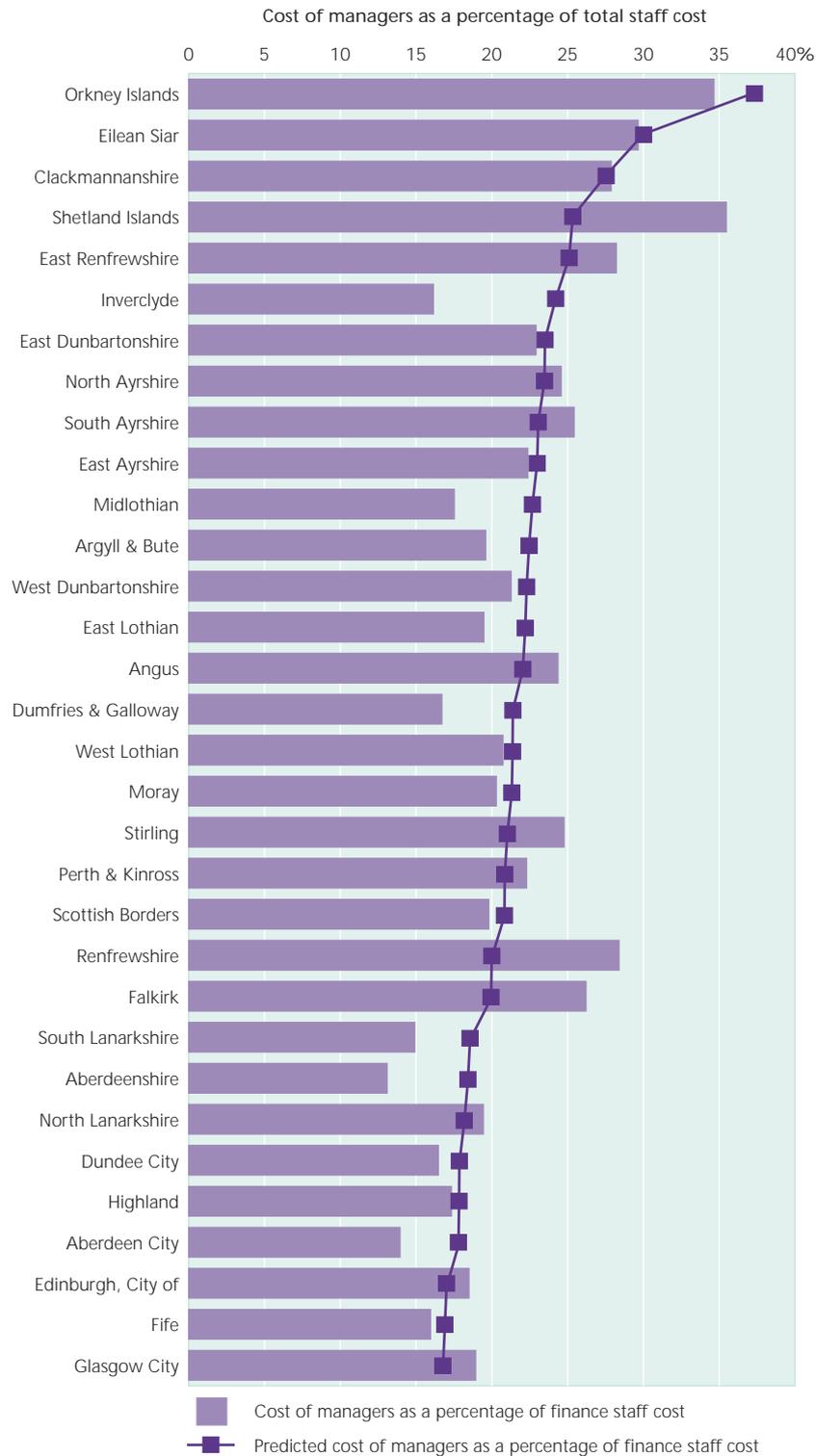
Previous work has also found economies of scale in the total cost of some of the finance functions, such as payroll (*Counting Down to Competition, A Management Handbook on Financial Support Services*, Audit Commission, 1995). This study supports these findings.

Exhibit 13 shows the relationship between the cost of finance managers and the total cost of finance staff. This is a reasonably robust way of comparing councils providing account is taken of economies of scale. This measure goes some way to indicating whether the number of managers is appropriate for the number of staff, but not whether the number of managers is appropriate for the underlying workload. However, some of the difference from predicted cost may still be due to the particular nature of the functions undertaken by a council.

Because of the wide variation in the services provided by council finance departments, and variations in the degree of decentralisation of finance functions, it is not possible to determine which councils have higher or lower than expected cost of finance managers without detailed examination of the circumstances of each council.

Exhibit 13: Cost of finance department managers as a proportion of staff cost compared with the value predicted by regression analysis

There is a wide variation among council finance departments in the cost of managers, but some of this variation is explained by the department size.



Source: Accounts Commission analysis of local audit returns

We have provided councils with detailed information to allow them to benchmark their costs against those of other councils with similar finance functions.

The cost of managers in the social work service

The social work service provides a wide variety of services to a number of client groups, including:

- services for older people
 - services for home-based older people
 - residential accommodation for older people
- children's services
 - community and residential care for children
 - day care for children
- adult services
 - for AIDS/HIV
 - for those with disabilities
 - for independent living
 - for mental illness
- criminal justice services
- inspection and registration.

There are a number of problems in creating a robust indicator for the cost of managers for social work, including:

- the wide variety of work undertaken by social work departments
- the variation in the extent of contracting out of social work services
- the lack of agreed 'workload' measures for social work.

The one overall indicator of workload - the assessed relative need for expenditure under the Grant-aided Expenditure (GAE) system - is difficult to use for the purpose of this study as a large number of councils spend in excess of their GAE on social work services.

The two measures we have used to express the cost of managers in social work are:

- the cost of managers as a proportion of social work expenditure
- the cost of managers as a proportion of social work staff cost (Exhibit 14).
This looks at the ratio of managers to other staff, but does not indicate whether the number of managers is appropriate for the underlying workload.

Exhibit 14: Indicators of the cost of social work managers among councils

The cost of managers may be expressed relative to expenditure on social work or relative to total staff cost.

Indicator	Upper quartile	Median	Lower quartile
Managers' salary cost as a percentage of social work expenditure	4.1	3.4	2.8
Managers' salary cost as a percentage of total staff cost	11.9	9.0	7.8
Managers as a percentage of total staff	6.5	4.6	3.9
Senior managers as a percentage of managers	24.4	17.3	8.7
Cost of senior managers' salaries as a percentage of managers' salary cost	37.4	27.1	16.3

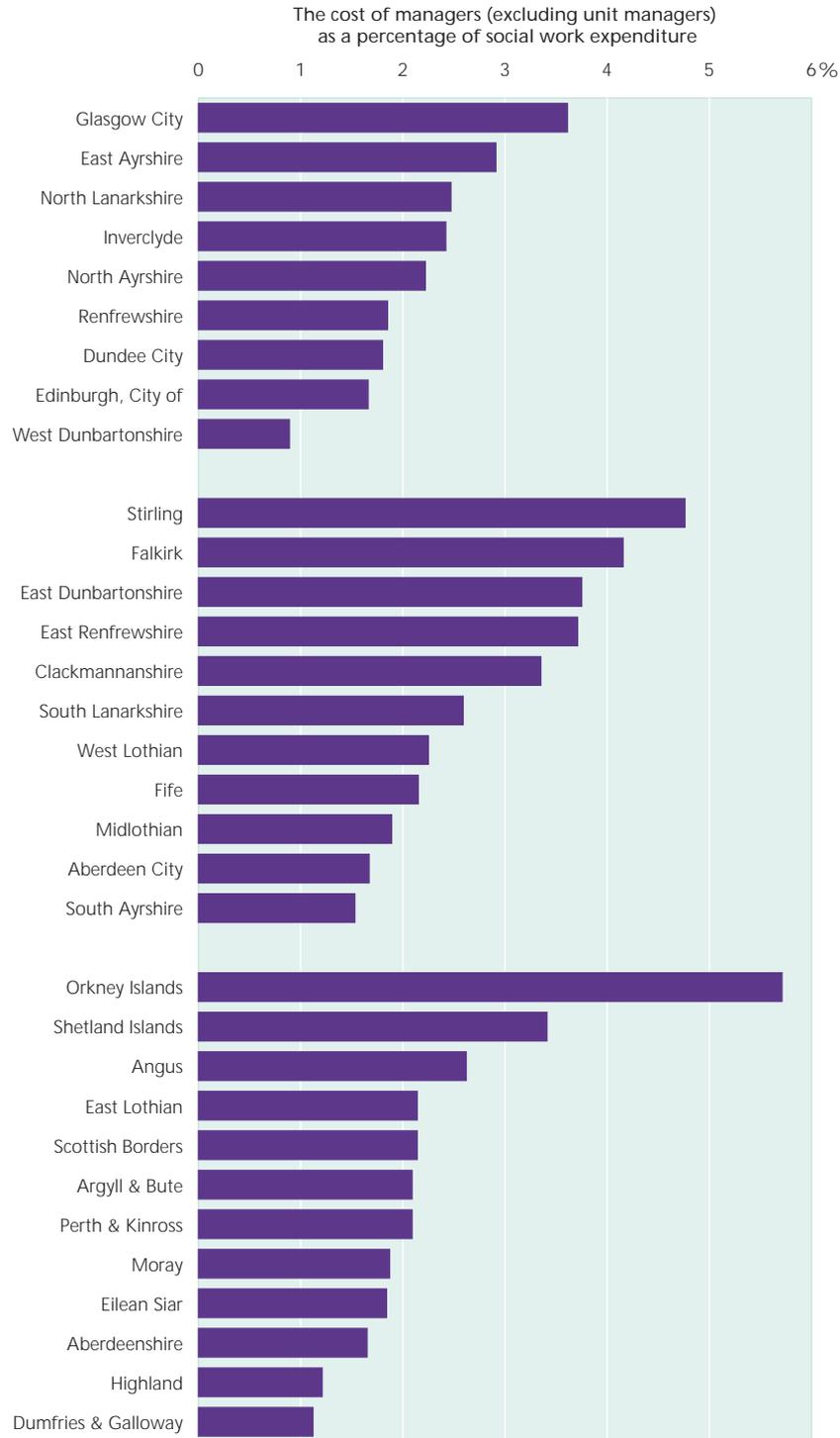
Source: Accounts Commission analysis of local audit returns

Variation in the cost of managers in social work

There is a great deal of variation in the proportion of social work service provision contracted out to the private and voluntary sectors, particularly for residential accommodation. For this reason the cost of unit managers of day care and residential units was excluded to calculate the cost of 'core' managers for social work. Exhibit 15, overleaf, shows the cost of social work managers, excluding unit managers, as a proportion of social work expenditure for each of the social work family groups.

Exhibit 15: The cost of managers (excluding unit managers) as a proportion of social work expenditure, by family group

The cost of managers varies among councils even within each family group.

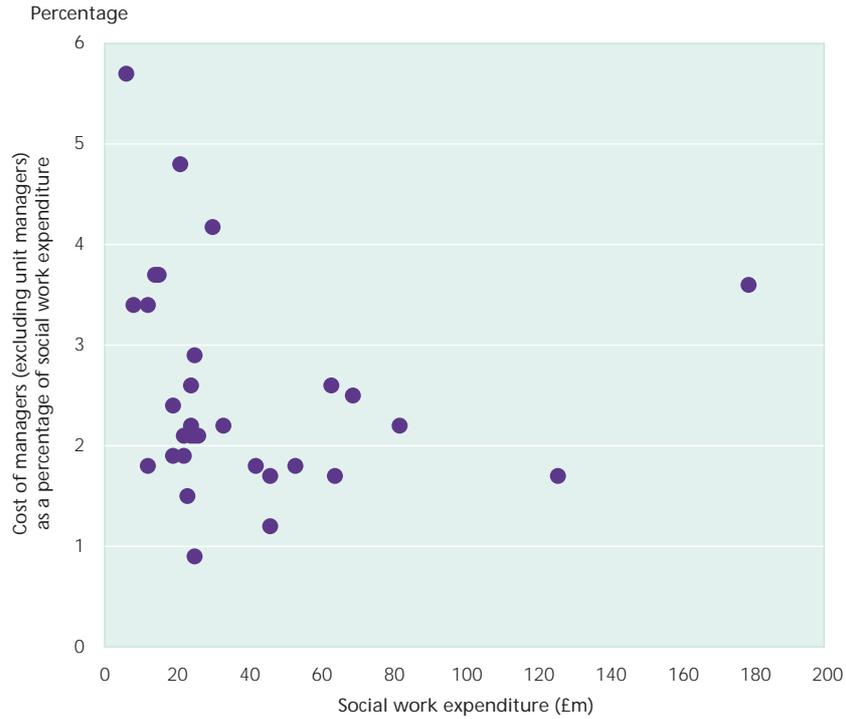


Source: Accounts Commission analysis of local audit returns

The cost of managers, excluding unit managers, as a proportion of social work expenditure, is shown against total social work expenditure in Exhibit 16. It can be seen that smaller councils tend to have a higher cost of managers, although the relationship does not seem to be as strong as for the other services.

Exhibit 16: Cost of managers (excluding unit managers) as a percentage of social work expenditure versus social work expenditure

Smaller councils tend to have a higher cost of managers.



Source: Accounts Commission analysis of local audit returns

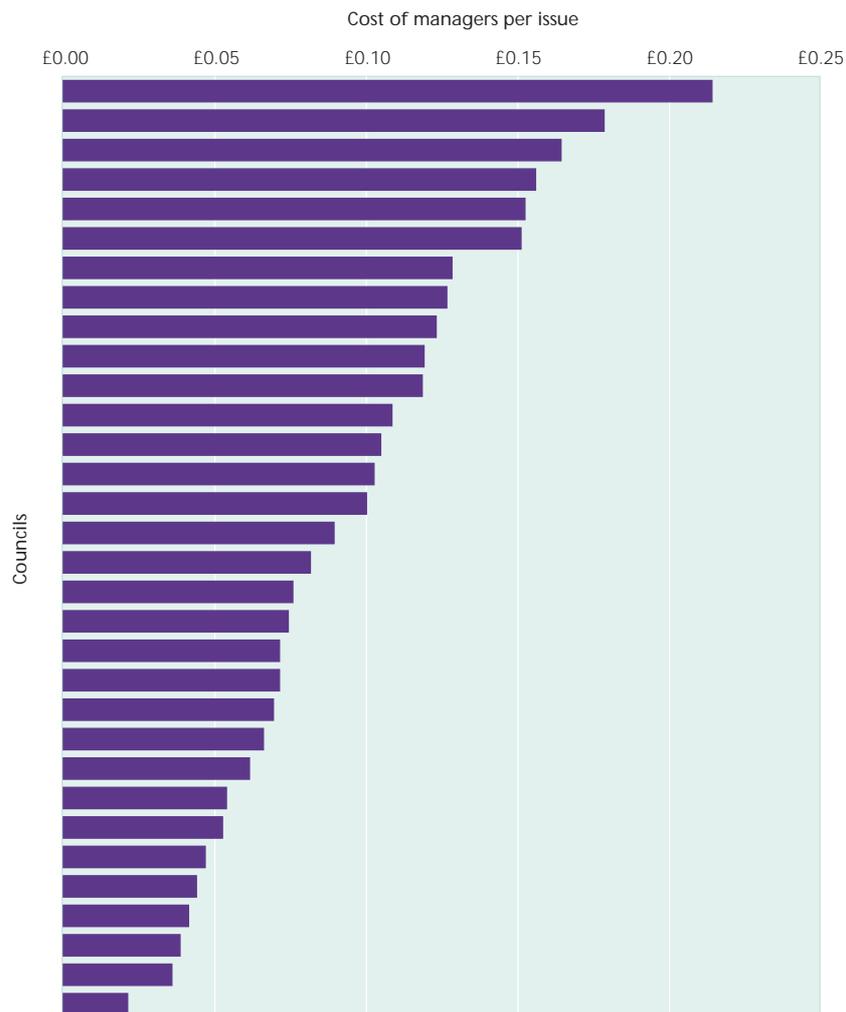
The cost of managers in the library service

The library service is usually part of community services, cultural services, or education services. The head of the library service is usually a third or fourth tier officer. The library service is a professionally led service, with qualified librarians representing 30% of total staff cost.

Across Scotland the average cost of managers per library issue is 7.6p, equivalent to 10% of the total staff cost per library issue of 77p. Exhibit 17 shows the cost of managers in library services expressed as the cost per issue (books and other media). This analysis shows a wide variation in the cost of managers among councils.

Exhibit 17: Cost of managers per issue

There are wide variations in the cost of managers in the library service.



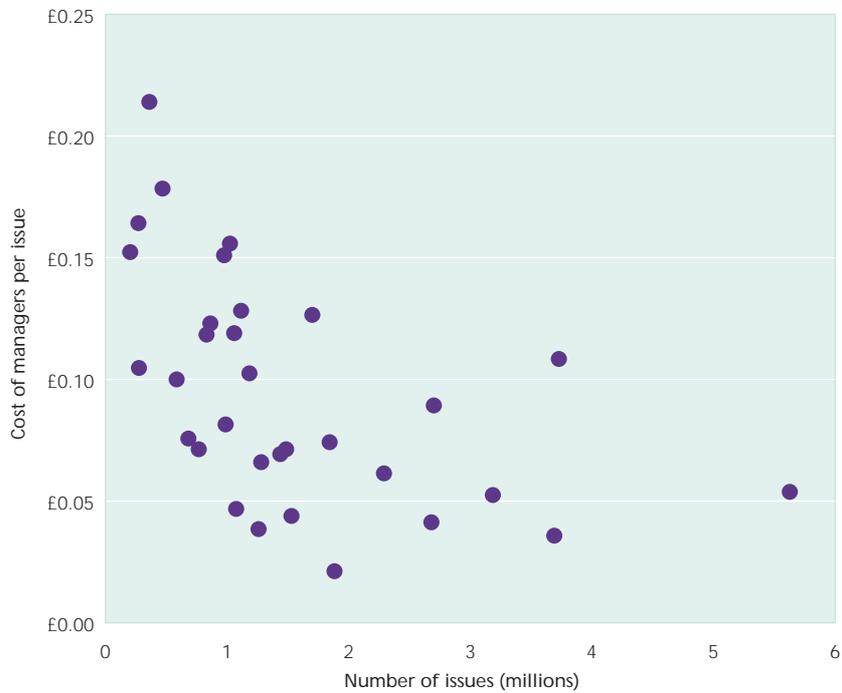
Source: Accounts Commission analysis of local audit returns

However, comparisons among councils need to be made with care, because it was difficult in the library service to get the degree of consistency in identifying managers that was achieved in the other services. For this reason, the information has not been published on a named-council basis.

There was clear evidence of economies of scale in the cost of managers of library services. Exhibit 18 shows the cost of managers per issue and the number of issues. Smaller library services with a low number of issues tend to have a higher cost of managers per issue than those with a large number of issues. A regression analysis of the cost of managers information indicates that the minimum cost of managers is approximately £30,000. Above this minimum, the cost of managers is broadly proportional to the number of issues.

Exhibit 18: The cost of managers per issue against total issues

Councils with smaller library services tend to have a higher cost of managers per issue.



Source: Accounts Commission analysis of local audit returns

What level of management?

Councils should be trying to achieve the level of management that will provide high-quality services at an acceptable cost. They should be making sure that:

- an appropriate level of resource is invested in management to ensure that council policies are implemented and their aims and objectives are met
- the cost of managers is controlled so that the management overhead does not become excessive to the detriment of front-line service provision.

A balance has to be struck. Bureaucracy will stifle an over-managed council. Conversely, an under-managed organisation may lack strategic direction and lose control over the cost and quality of service it provides. Councils need to be clear about what management is there to do. There is a strategic role as well as a service management role and councils need sufficient capacity to manage services and deliver change to achieve Best Value.

It is not the job of the Accounts Commission to prescribe appropriate levels of management, but this study has identified a number of councils where the cost of managers appears out of line with other councils. These councils may have either excessive or insufficient levels of management. This can be established only by comparisons with similar councils and detailed local review.

Local review of the cost of managers

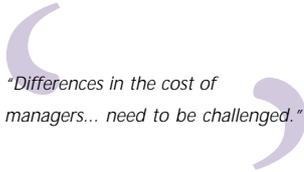
The Accounts Commission has provided all councils with a software package, called COMPARE, which incorporates a number of performance indicators derived from the information collected during this study. The indicators have been devised to assist councils to analyse their management cost information and other service data, and to identify areas:

- that may be worthy of further investigation
- where performance seems to be out of line with other similar councils.

Guidance on using the indicators has also been provided covering:

- family groups
- data analysis, definitions and validation
- a benchmarking code of conduct.

The COMPARE package allows councils to identify and ask questions about variations in their performance (data benchmarking). However, the answers to these questions can be provided only by a detailed examination of service processes that lead to differences in performance (process benchmarking). Therefore, the use of performance indicators is only a starting point of the benchmarking process and does not provide any answers in itself.



It follows that councils should not make changes to their management structures based solely on the indicators provided during this study. Councils may wish to use the information to focus on areas worthy of further review as part of their Best Value service reviews. Differences in the cost of managers between councils with similar characteristics need to be challenged. Given the sensitivity of the topic, it may help to have independent advice, eg from consultants, when reviewing management structures.

The Accounts Commission's publication, '*Measuring up to the best, A manager's guide to benchmarking*' (January 1999), provides guidance on both data benchmarking, used here to identify areas for review, and process benchmarking, used to identify the differences in processes leading to differences in performance.

A process of continuous review

Councils have embraced the concept of Best Value and accept that they should be reviewing the way they manage their functions and the quality of services they provide. Their commitment to continuous improvement involves them in reviewing how they manage, procure and deliver services. The objectives listed by councils when reviewing their management structures fall into five main areas:

- 1 *Improved service delivery* - to provide better customer care.
- 2 *Improved public image* - to rejuvenate the image of the authority, in line with revised political priorities and corporate objectives.
- 3 *Corporate approach* - to focus the management structure towards a more corporate style, helping the public to see the council as one body.
- 4 *Improved managerial capacity* - to have sufficient capacity to anticipate and manage change.
- 5 *Improved use of finances* - to remain within budgetary controls by achieving cost savings where possible.

While a number of councils developed new structures in the shadow year leading up to reorganisation, they accepted that they might not have got their structures right at the first attempt. Many councils are now in the process of conducting a major review of their management structures.

However, before reducing their levels of management, councils need to consider carefully the consequences of change. Indiscriminate reductions in the levels of management can create problems that may have a detrimental impact on the quality and cost of service delivery.

What should an improved management structure look like? Irrespective of the numbers of managers involved, certain features emerge where councils have reviewed their management and staffing structures:

- *introduction of flatter structures*. Councils have introduced flatter management structures, with service department managers taking on certain corporate management responsibilities.
- *reduction in the number of one-to-one line managers*. It is common, for example, for a depute tier of management to have been removed from the structure.
- *shorter lines of communication*
- *more empowerment given to line managers*
- *better use of IT*. Optimising the use of information technology can support lower staffing levels.
- *combination and integration of related service departments*. By adopting a management structure that reflects the needs of the new combined service, the numbers of managers have been reduced (see '*Better together?*', Accounts Commission, May 1999).

When embarking upon a major review of its management structure every council needs to have a clear vision of what it is trying to achieve and be able to communicate its objectives. The restructuring needs to be undertaken alongside a review of service delivery and must have the political support of members. Appendix 4 contains examples of how three councils have approached restructuring.

Conclusions and next steps

The wide variation among councils in the cost of managers is partly explained by the characteristics of each council. The most prominent of these factors is economy of scale, which is evident in all four of the services examined. This suggests that there might be cost benefits in integrating functions within councils, working jointly with other councils, or outsourcing the function where appropriate. Opportunities need to be looked at individually and councils should consider such opportunities as part of their Best Value service reviews.

Several council services have costs of managers significantly higher or lower than might be expected for their circumstances. The reasons behind this should be explored by the councils concerned in the first instance, in part by contacting councils in similar circumstances but with different costs. If the difference cannot be explained by local factors or by the quality of service, action should be taken by the councils to address the matter.

This is the first time that robust benchmarking information on the cost of managers has been made available to all councils. The Commission expects to see a considered response by each council to the benchmarking information. Auditors will be challenging councils to set out an action plan, and will be monitoring the position over the coming two years. The Commission recognises that it takes time to adjust staffing levels and the number of managers. While now may not be the appropriate time to judge a council's performance, it would be appropriate in, say, 18 months' time if a council has not reviewed management structures where they appear out of line with other similar councils.

Auditors may follow up this study in approximately 18 months' time, by repeating the benchmarking exercise locally and checking what changes have been made over time. In any case, auditors will be using this information alongside other available information to build up a rounded profile of each council. This will help inform judgements about whether a council is delivering Best Value. A low cost of managers may be of as much concern as a high cost, if it is bought at the expense of the general efficiency and effectiveness of the service.

The level of managers and of staff is rightly of considerable interest to the public. Although the variation among councils is not as high as it appears at first sight, there are still variations which councils should either explain or address. Delivering Best Value requires councils to establish the optimum cost of managers in order to manage their services efficiently without creating bureaucracy.

Appendix 1: Membership of study advisory group

David Brown, Corporate Manager (Competitive and Technical Strategy), Fife Council

Sandy Cameron, Executive Director (Social Work Resources), South Lanarkshire Council

David Dorward, Director of Finance, Dundee City Council

Jim Inch, Head of Personnel and Management Services, City of Edinburgh Council

Ronald Jackson, Director of Legal, Administrative & Property Services, Perth & Kinross Council

Stuart McCalman, previously Depute Head of Service Area, Planning and Resource, Moray Council

Arthur McCourt, Chief Executive, The Highland Council

Kenneth McLeod, previously Director for Education, Dumfries & Galloway Council

Russell Rowbotham, previously Director of Housing, Dundee City Council

Albert Tait, COSLA

Sandy Watson, Chief Executive, Angus Council

Members sat on the Group in a personal capacity.

Appendix 2: Methodology

The analysis was based on filled posts. Auditors obtained a copy of the organisation structure for each service being covered and, in consultation with senior staff from each service, classified staff into managers and non-managers. Auditors recorded the number of posts by tier: the chief officer or service head was counted as tier 1; staff reporting directly to the chief officer as tier 2, and so on.

Defining who is a manager was one of the fundamental aspects of this study. To assist auditors and councils, a pragmatic approach was adopted. A manager was defined as:

- always having line management responsibility for other staff
- being accountable for the use of physical, human and financial resources.

Supervisors were classified as non-management staff. The factors used to distinguish between managers and supervisors are listed below.

Distinguishing between managers and supervisors

A manager ...	A supervisor ...
<ul style="list-style-type: none">• will always have line management responsibility for other staff	<ul style="list-style-type: none">• will have supervisory responsibilities for other staff
<ul style="list-style-type: none">• usually has responsibility for a budget	<ul style="list-style-type: none">• does not usually have budgetary responsibilities
<ul style="list-style-type: none">• sets the overall work plan	<ul style="list-style-type: none">• has very little discretion in setting the work plan
<ul style="list-style-type: none">• has an element of discretion in setting priorities in the work plan	<ul style="list-style-type: none">• ensures that work is undertaken

An alternative method of measuring the cost of management would be to use activity-based costing to calculate the length of time that individual members of staff spent undertaking management activities based on a detailed time-sheet. This type of activity-based costing, however, is not well developed in Scottish councils.

Calculating the cost of managers

For the purposes of this report we have calculated the cost of managers based on the salary cost of management staff. Although some managers may spend a proportion of their time on non-management duties, for the purposes of this report all salary costs associated with such posts were classified as a cost of managers.

For ease of calculation:

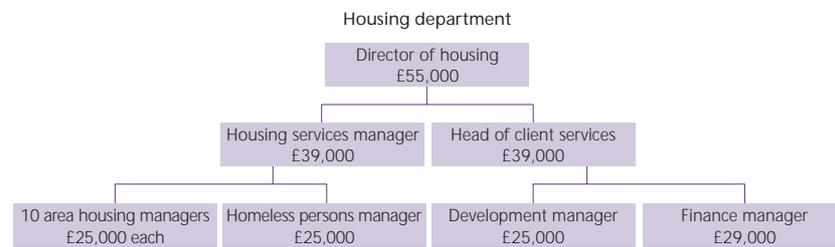
- the midpoint of salary bands was used in calculating costs
- payroll 'on-costs', such as employer's national insurance and superannuation, were excluded
- overtime and other pay enhancements were excluded
- travel, subsistence and car allowances were excluded.

This is illustrated in the worked example below.

Calculating the cost of managers: a worked example

The housing services organisation chart (Exhibit 1) has been analysed to calculate the number of tiers and cost of managers, and the relative proportion of managers.

Exhibit 1: Housing organisation chart (managers only)



Total staff including managers = 185

Total salary cost = £2.25 million

Tier number	Manager posts	Manager posts salary cost
1	1	£55,000
2	2	£78,000
3	13	£329,000
Totals	16	£462,000

Calculation of ratios

The analysis of management tiers can be used to calculate the percentage of staff who are managers and the cost of managers as a proportion of total staff cost.

$$\text{Managers (as a percentage of total staff)} = 16/185 \times 100 = 9\%$$

$$\text{Cost of managers (as a percentage of total staff cost)} = 462,000/2,250,000 \times 100 = 21\%$$

Senior managers

In addition to the analysis of management tiers, we collected separate information on the number and salary cost of senior managers. For the purposes of this study, a senior manager was defined as a manager who has responsibility for strategic and policy matters as well as for the direction and control of management resources. A senior manager usually:

- has strategic responsibility for service provision
- is a member of the management team for that service
- manages other managers
- has a salary of £29,500 or above.

Data validation

Data submitted by auditors were subjected to several validation checks by the central study team. As the study focuses on the cost of managers, data relating to the cost of managers were subjected to a much higher level of scrutiny than the contextual information for each service.

Draft indicators of the cost of managers were provided to councils, through their local auditors, for checking and confirming the reasonableness of the results.

Appendix 3: Family groups

When making comparisons between councils it is important that comparisons are made on a like-for-like basis. In undertaking the study we wished to create family groups for each of the four services examined.

Before we created the family groups, we discussed with experts in each of the service areas the factors that could be used to create families of similar councils. The study team then used these factors to group councils together using the statistical technique of cluster analysis.

Housing family groups

Family groups for the housing service were developed using the following criteria:

- the number of dwellings managed by the council
- the rural settlement pattern (proportion of people living outside settlements of greater than 1,000 population).

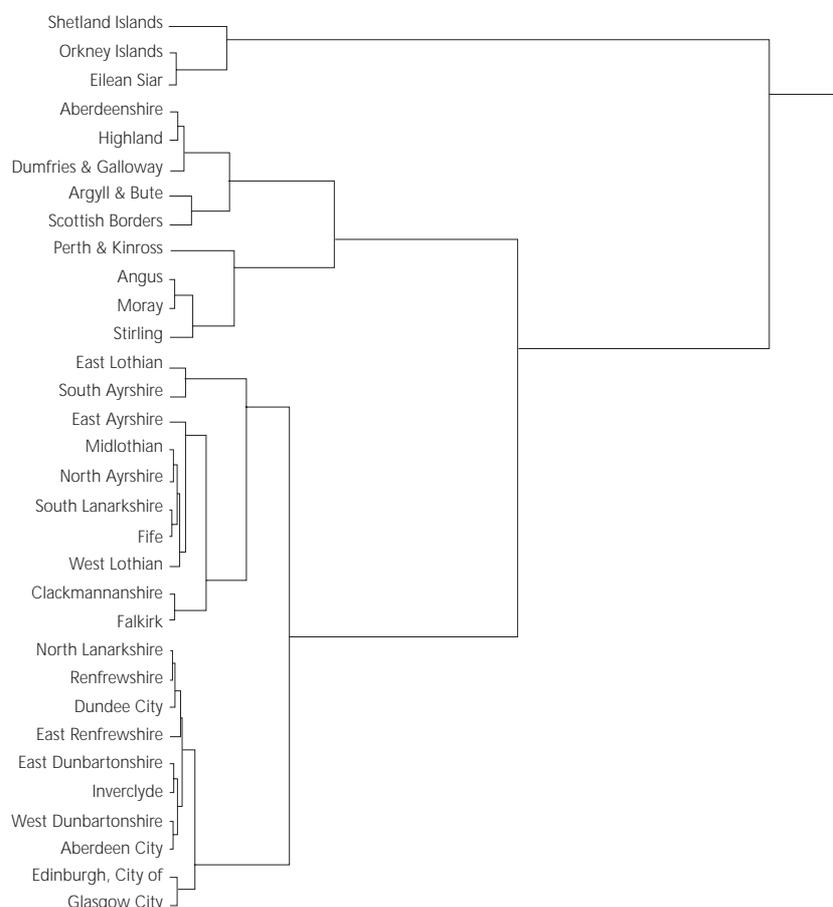
These factors were chosen because of the economies of scale in the housing management function and also because the nature of the housing service is affected by whether the housing stock is concentrated in urban areas or distributed over a wider area. Other factors could have been included, for example, deprivation, but this factor is highly correlated with the settlement pattern and was therefore omitted.

The resulting cluster tree is shown in Exhibit 2. The tree diagram sets out the relationships between individual councils. The order of the councils ranges from small rural housing services at the top, to large urban housing services at the bottom.

Family groups can be built by reading from left to right or broken down by reading from right to left. For example, if one wished to split councils into two groups, moving from right to left, the first split occurs between the island councils and the mainland councils. On the other hand, if one wanted to build up a group for Angus Council, for example, the first council it is linked to in the tree diagram is Moray Council (its nearest neighbour in statistical terms); after Moray is Stirling, then Perth and Kinross followed by the remaining mainland rural councils.

This method can be used to split the suggested family groups into smaller groups or to aggregate them into larger groups.

Exhibit 2: Housing cluster tree



Source: Accounts Commission analysis of audit returns and Scottish Executive Central Research Unit data

The suggested groupings for housing services, derived from the cluster tree above, are shown in Exhibit 3 below. This grouping is also suggested for the library service.

Exhibit 3: Suggested family groups for housing and libraries

Urban	Mixed	Rural	Island
Aberdeen City	Clackmannanshire	Aberdeenshire	Orkney Islands
Dundee City	East Ayrshire	Angus	Shetland Islands
East Dunbartonshire	East Lothian	Argyll & Bute	Eilean Siar
East Renfrewshire	Falkirk	Dumfries & Galloway	
City of Edinburgh	Fife	Highland	
Glasgow City	Midlothian	Moray	
Inverclyde	North Ayrshire	Perth & Kinross	
North Lanarkshire	South Ayrshire	Scottish Borders	
Renfrewshire	South Lanarkshire	Stirling	
West Dunbartonshire	West Lothian		

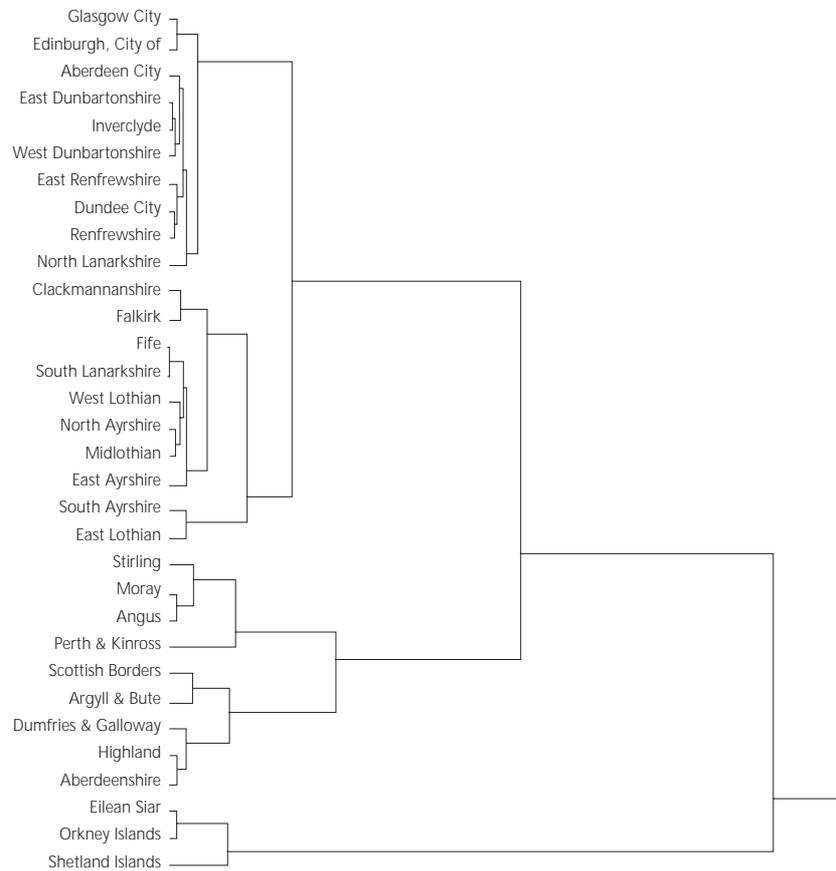
Libraries family groups

Libraries family groups were created using the following criteria:

- the council population
- the rural settlement pattern (proportion of people living outside settlements of greater than 1,000 population).

These factors were chosen as there are economies of scale in the library management function and it was felt that the nature of the library service is affected by whether the service is provided in an urban or rural environment. The resulting cluster tree showing the relationships between the councils is shown in Exhibit 4 below. The process for creating family groups is the same as for housing services. Although the cluster tree is somewhat different from that for the housing service, the family groups derived from the cluster tree are the same as the groups suggested for housing.

Exhibit 4: Libraries cluster tree



Source: Accounts Commission analysis of audit returns and Scottish Executive Central Research Unit data

Social work families

For social work, the broad groupings are based on the characteristics of the client groups receiving social work services. One would wish to create separate family groups when looking at individual components of the social work service, for example, residential care or children's services. The broad family groupings were derived using the client groups used in social work Grant-aided Expenditure (GAE) excluding non-specific groups such as 'other administration'. This approach has certain advantages:

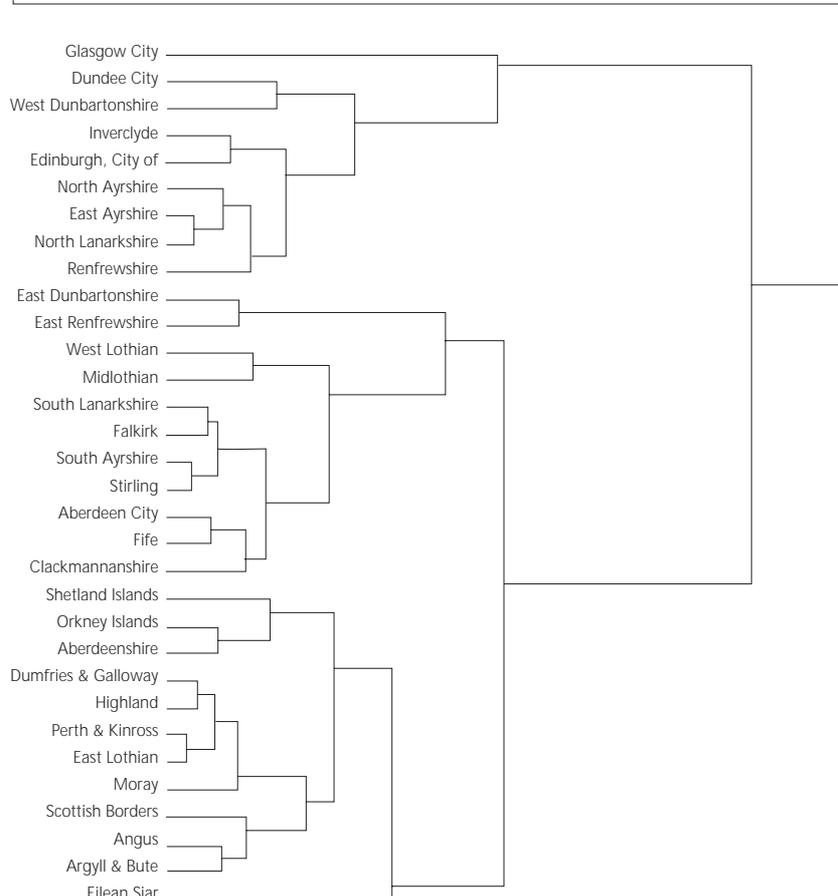
- The GAE methodology has been accepted by councils.
- The GAE methodology has been the subject of a great deal of research and consultation.
- The factors used in determining GAE have been shown to be robust for a number of years.

The GAE assessment for each client group was divided by the population to provide an indicator of per capita expenditure for each client group. For example:

- GAE assessment for home-based elderly divided by the elderly population for that council.
- GAE assessment for day care for children divided by the under-16 population.

Cluster analysis was then applied to these data to group together councils with similar expected expenditure patterns for the selected client groups. Exhibit 5 shows the cluster tree for all councils. Exhibit 6 shows the three main groups derived using this analysis. Families in the same group would be expected to be delivering broadly similar services to broadly similar client groups.

Exhibit 5: Social work cluster tree



Source: Scottish Executive Central Research Unit data

Exhibit 6: Suggested family groups for social work

Family 1	Family 2	Family 3
Dundee City	Aberdeen City	Aberdeenshire
East Ayrshire	Clackmannanshire	Angus
City of Edinburgh	East Dunbartonshire	Argyll & Bute
Glasgow City	East Renfrewshire	Eilean Siar
Inverclyde	Falkirk	Dumfries & Galloway
North Ayrshire	Fife	East Lothian
North Lanarkshire	Midlothian	Highland
Renfrewshire	South Ayrshire	Moray
West Dunbartonshire	South Lanarkshire	Orkney Islands
	Stirling	Perth & Kinross
	West Lothian	Scottish Borders
		Shetland Islands

Finance family groups

The finance service has a number of functions. Some, like council tax collection, will be affected by the council's external environment, while others such as payroll are internal functions. In addition, the degree of decentralisation of finance services will vary among councils. Because of these factors we have not attempted to draw up family groups for the finance function as a whole, although the Commission has already published family groups for council tax collection in its report '*Council Tax Collection*', February 1998. Information on the degree of decentralisation of finance services has been supplied to councils to help them create groupings appropriate to their own local circumstances.

Appendix 4: Examples of restructuring

Exhibit 7 gives examples of some of the changes made by councils to their management and staffing structures. Savings achieved have varied from £150,000 to over £600,000 per year, but councils did not quantify savings in all cases.

Exhibit 7: Examples of changes made by councils to their structures

Social work

- reducing the number of management tiers, shortening lines of communication and enhancing decentralisation of management
- restructuring, or merging, housing and social work services
- removing certain posts and absorbing service responsibilities
- restructuring headquarters units
- integrating area teams and locating each team at a more accessible location
- clarifying strategic and operational management roles and reducing staffing
- introducing an additional tier of operational management in area offices, offset by reducing the number of managers within headquarters.

Finance

- reorganising revenues, payroll, and payments and administration functions
- designing and implementing an integrated structure
- devolving finance functions to area offices.

Housing

- restructuring or merging services - for example, housing and social work services, and housing and property services
- reorganising area teams
- centralising certain functions by relocating local area housing managers to the centre, enabling corporate issues such as housing policy to be dealt with more effectively.

Libraries

- creating integrated cultural services, with more emphasis on joint working
- merging public and education library services.

Exhibit 8: The key principles underpinning Glasgow City Council's restructuring of the council and its departments

Before embarking upon a restructuring of the council and its departments, Glasgow City Council set out the following aims and objectives to be achieved:

- that the structure provides more integrated and effective services
- that it is clear and easily understood by residents and the council's partners, offering, wherever possible, a one-door approach to related services
- that it meets the requirements of Best Value: providing the necessary management response as well as the flexibility required in the future to accommodate possible new methods of service delivery
- that it offers effective strategic management, delivering the council's key objectives
- that it provides immediate opportunities to realise economies
- that the money saved from restructuring should be invested in front-line services
- that in a period of unprecedented change and upheaval, it provides the necessary independent financial, policy and personnel advice required by the council (including relevant statutory positions) through officers with sufficient status and weight
- that it will be a contributory factor in improving the political management of the council.

Exhibit 9: How two councils approached their reviews of management structures

On reorganisation, South Lanarkshire Council retained a traditional structure similar to the former Strathclyde Regional Council in order to support a seamless transfer of functions. This structure, consisting of 15 separate departments, all headed by directors, was later reviewed. In April 1997, a management efficiency exercise at middle management level removed 200 posts, saving £5 million. In October 1997, the number of directorates was reduced from 15 to seven, with further reductions in managers. The aim of the restructuring was to improve service delivery by increasing co-ordination between departments, to reduce the layers of management, reduce duplication of effort as well as achieve cost savings of around £1 million a year. The savings achieved were mainly invested in front-line services. The process is ongoing and the most recent management reviews will accrue further savings of £500,000 over the next three years.

Aberdeenshire Council identified the potential for reorganising its management structures, and is looking to improve continuously. The council set up workshops for members, chief officers and trades unions in its shadow year, which informed the decision to combine environmental health with consumer protection, planning with economic development, and transportation with roads. Since reorganisation, it has conducted a review of its senior management structures, leading to the following departmental mergers:

- social work with housing
- education with recreation
- outdoor services with planning and economic development
- property with transportation and roads
- central support services with IT
- school library with public library services.

It has conducted service reviews of environmental health and consumer protection, to ensure that form follows function and to take advantage of the opportunities offered by reorganisation in the middle and lower levels of management. Reviews of revenues, libraries, benefits, and the client/contractor split are ongoing:

- benefits administration - to combine the former district council (rent rebates and allowances) and regional council (council tax benefits) functions
- client/contractor split - to review the split between service clients and the commercial operations contractor, to seek advantages through the Best Value framework from the change in emphasis from the cost of delivery to the best value overall. These reviews aim to ensure that the council adopts appropriate organisational structures to support quality services and offer best value.

Appendix 5: Summary of indicators

The following tables show a selection of the indicators provided to councils to allow them to benchmark their cost of managers in the context of the service provided.

Housing indicators

	Upper quartile	Median	Lower quartile
Staff cost per lettable dwelling	£205	£170	£125
Staff cost per lettable dwelling excluding non-HRA staff, rent collection staff and wardens and caretakers	£155	£119	£100
Cost of managers per lettable dwelling	£37	£26	£22
Managers as a percentage of total staff	11	9	6
Cost of managers as a percentage of total staff cost	24	18	13
Senior managers as a percentage of managers	50	29	23
Cost of senior managers as a percentage of cost of managers	64	40	35
Number of management tiers	4	4	3
Average salary of managers	£31,378	£28,498	£27,202
Rent collection staff salary cost per account	£20	£17	£10
Total annual rent loss due to voids as a percentage of the total amount of rent due in the year	2.4	1.8	1.2
Current tenant arrears as a percentage of the net amount of rent due in the year	9	6	5
Response repairs - staff salary cost per request	£9	£7	£4
HRA revenue expenditure on repairs and maintenance per lettable dwelling	£592	£486	£426
Allocations - staff salary cost per allocation	£200	£131	£92
New allocations per year as a percentage of lettable dwellings	11	9	8
Estate supervision - salary cost per lettable dwelling	£24	£14	£10
Number of lettable dwellings	22,586	13,787	8,053
Number of area offices	7	6	4
Lettable dwellings per area office	3,984	2,006	1,667
Non-HRA staff salary cost as a percentage of total staff salary cost	10	5	1

Source: Accounts Commission analysis of local audit returns and 1997/98 statutory performance indicators

Finance indicators

	Upper quartile	Median	Lower quartile
Staff cost per £1,000 of NRE + HRA income	£13.30	£11.11	£8.99
Cost of managers per £1,000 of NRE + HRA income	£2.95	£2.30	£1.83
Managers as a percentage of total staff	12.4	9.7	8.1
Cost of managers as a percentage of total staff cost	24.9	20.5	17.5
Senior managers as a percentage of managers	41.1	31.7	24.5
Cost of senior managers as a percentage of the cost of managers	54.3	44.7	35.6
Number of management tiers	4	3	3
Average salary of managers	£34,612	£33,517	£31,508
Cost of collecting council tax per chargeable dwelling	£14.73	£10.57	£7.23
Percentage of income due from council tax received during the year	92	90	86
Sundry debtors: salary cost per invoice	£1.84	£1.13	£0.73
Sundry debtors: reminders as a percentage of invoices sent	52.6	34.3	27.1
Staff salary cost per employee payment	£1.36	£1.17	£0.93
Staff salary cost per employee paid	£31.94	£29.58	£20.66
Creditor payments salary cost per invoice	£0.57	£0.45	£0.36
Gross administration cost per housing benefit application	£35.88	£23.72	£20.02
Percentage of housing benefit applications that were processed within 14 days of receipt	93	86	66
Superannuation salary cost per scheme member	£8.55	£6.93	£5.49
Accountancy salary costs as a percentage of finance salary costs	26	22	17
Accountancy salary costs per £1000 of NRE + HRA income	£3.25	£2.52	£1.73
Internal audit salary costs as a percentage of finance salary costs	8.2	7.1	5.8
Internal audit salary cost per £1000 of NRE + HRA income	£0.93	£0.83	£0.67

Source: Accounts Commission analysis of local audit returns and 1997/98 statutory performance indicators

Social work indicators

	Upper quartile	Median	Lower quartile
Staff salary cost as a percentage of social work expenditure	43.5	36.8	32.1
Cost of managers as a percentage of social work expenditure	4.1	3.4	2.8
Managers as a percentage of total staff	6.5	4.6	3.9
Cost of managers as a percentage of total staff cost	11.9	9.0	7.8
Senior managers as a percentage of managers	24.4	17.3	8.7
Cost of senior managers as a percentage of the cost of managers	37.4	27.1	16.3
Number of management tiers	5	5	4
Average salary of managers	£28,690	£26,877	£24,665
Social work expenditure (excluding criminal justice) as a percentage of GAE assessment for social work	120	109	102
Contracted out expenditure as a percentage of total expenditure	38.8	31.9	24.8
Ratio of senior social workers to social workers plus social work assistants	1:6.9	1:5.3	1:4.5

Source: Accounts Commission analysis of local audit returns

Libraries indicators

	Upper quartile	Median	Lower quartile
Staff cost per issue	£0.91	£0.69	£0.60
Cost of managers per issue	£0.12	£0.09	£0.06
Managers as a percentage of total staff	10.8	5.2	3.6
Cost of managers as a percentage of total staff cost	17.3	11.0	8.4
Number of management tiers	3	2	2
Average salary of managers	£27,693	£26,272	£24,090
Average time taken to satisfy book requests (days)	32.5	24.0	15.5
Stock expenditure per head of population	£3.05	£2.50	£1.95
Stock expenditure as a percentage of total expenditure	19.0	14.8	12.0
Staff expenditure as a percentage of total expenditure	55.7	51.3	45.5

Source: Accounts Commission analysis of local audit returns and 1997/98 statutory performance indicators

Appendix 6: Analysis of councils' management structures (spring 1998)

Housing management structures

	Managers in tier...					Total	Cost of managers per dwelling
	1	2	3	4	5		
Urban councils							
Aberdeen City	1	4	9			14	£13
Dundee City	1	3	13			17	£23
East Dunbartonshire	0.4	1	5	1		7	£37
East Renfrewshire	0.12	1	3			4	£26
City of Edinburgh	1	4	20	26	3	54	£48
Glasgow City	1	11	60	9	11	92	£24
Inverclyde	1	1.5	8			11	£25
North Lanarkshire	1	2	7	20		30	£17
Renfrewshire	1	3	8	14		26	£31
West Dunbartonshire	0.4	4	4	2		10	£22
Mixed councils							
Clackmannanshire	0.25	1	3	10		14	£54
East Ayrshire	1	3	10			14	£21
East Lothian	0.4	1.5	4	3		9	£24
Falkirk	1	2	6	12		21	£24
Fife	1	5	15	2		23	£17
Midlothian	0.4	1	2	2		5	£18
North Ayrshire	1	3	8	8	1	21	£31
South Ayrshire	0.6	1.6	10	1		13	£32
South Lanarkshire	1	6	15			22	£19
West Lothian	0.25	2	5	5	8	20	£30
Rural councils							
Aberdeenshire	0.4	3	3	2	3	11	£22
Angus	1	2	10			13	£33
Argyll & Bute	0.35	2	7			9	£36
Dumfries & Galloway	1	2	3	2	4	12	£26
Highland	1	8				9	£18
Moray	0.5	1	2	5		9	£31
Perth & Kinross	1	4	11			16	£39
Scottish Borders	1	2	3			6	£25
Stirling	0.2	1.4	2.8	8.4	4	17	£48
Islands councils							
Eilean Siar	1	2	3			6	£88
Orkney Islands	0.15	1	1			2	£60
Shetland Islands	0.25	3	2			5	£60

Source: Accounts Commission analysis of local audit returns

Note: In some councils the number of managers in tier 1 is less than one. In these cases the housing department is combined with another service department and the managers' time has been apportioned between the relevant services.

Finance management structures

	Managers in tier...					Total	Cost of managers per £1,000 of NRE + HRA income
	1	2	3	4	5		
Aberdeen City	1	4	11			16	£1.83
Aberdeenshire	1	4	8			13	£1.68
Angus	1	3	9			13	£3.10
Argyll & Bute	1	2	6			9	£2.12
Clackmannanshire	0.35	3	5			8	£3.81
Dumfries & Galloway	1	2	2	4		9	£1.51
Dundee City	1	4	10	5		20	£2.52
East Ayrshire	1	3	5			9	£1.97
East Dunbartonshire	1	4	4			9	£2.42
East Lothian	0.7	2	5	3		11	£2.86
East Renfrewshire	1	2	4	3		10	£3.42
City of Edinburgh	1	3	11	22		37	£1.97
Falkirk	1	2	6	12		21	£3.62
Fife	1	7	20	5		33	£2.10
Glasgow City	1	4	10	8	14	37	£1.10
Highland	1	6	14			21	£1.98
Inverclyde	1	2	2			5	£1.39
Midlothian	1	4	1	2		8	£2.23
Moray	0.5	1	2	4	3	11	£3.06
North Ayrshire	1	2	6			9	£1.75
North Lanarkshire	1	2	6	12		21	£1.54
Orkney Islands	0.85	5				6	£3.22
Perth & Kinross	1	3	9			13	£2.70
Renfrewshire	0.72	2	6	5	6	20	£2.36
Scottish Borders	1	3	7	2		13	£2.92
Shetland Islands	0.75	4	15			20	£7.78
South Ayrshire	1	2	5	3		11	£2.41
South Lanarkshire	0.8	2	8	1		12	£1.14
Stirling	1	3	13	1		18	£4.32
West Dunbartonshire	1	4	4			9	£2.09
West Lothian	1	4	7			12	£1.82
Eilean Siar	1	1	3	3		8	£2.85

Source: Accounts Commission analysis of local audit returns

Social work management structures (excluding unit managers)

	Managers in tier...							Total	Cost of managers (excluding unit managers) as a percentage of social work expenditure
	1	2	3	4	5	6	7		
Social work family 1									
Dundee City	1	4	19	6	3			33	1.8
East Ayrshire	1	6	13	5				25	2.9
Edinburgh, City of	1	3	5	16	51			76	1.7
Glasgow City	1	3	9	13	69	110	41	246	3.6
Inverclyde	1	3	10	1				15	2.4
North Ayrshire	1	2	8	7	4			22	2.2
North Lanarkshire	1	3	14	12	26			56	2.5
Renfrewshire	1	3	11	9				24	1.8
West Dunbartonshire	0.55	1	5					7	0.9
Social work family 2									
Aberdeen City	1	6	14	7	12			40	1.7
Clackmannanshire	0.75	2	10					13	3.4
East Dunbartonshire	0.6	3	11	2	1			18	3.7
East Renfrewshire	1	5	11					17	3.7
Falkirk	1	3	6	31				41	4.2
Fife	1	6	25	20	10			62	2.2
Midlothian	0.6	1	4	9				15	1.9
South Ayrshire	0.4	1	6	3				10	1.5
South Lanarkshire	1	6	15	22	12			56	2.6
Stirling	0.8	3	7	26				37	4.8
West Lothian	0.25	3	10	12				25	2.2
Social work family 3									
Aberdeenshire	0.6	5	18	11				35	1.7
Angus	1	5	12					18	2.6
Argyll & Bute	0.65	2	15					18	2.1
Dumfries & Galloway	1	5	8					14	1.1
East Lothian	0.6	2	5	9				17	2.1
Eilean Siar	1	1	4	1				7	1.8
Highland	1	4	8	4				17	1.2
Moray	0.5	1	2	5	3			12	1.9
Orkney Islands	1	4	7	1				13	5.7
Perth & Kinross	1	4	10					15	2.1
Scottish Borders	1	2	3	9				15	2.1
Shetland Islands	1	4	4					9	3.4

Source: Accounts Commission analysis of local audit returns



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