The Audit of Best Value and Community Planning

Aberdeen City Council

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
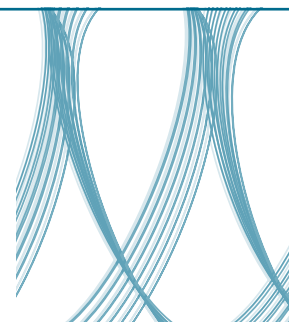- requiring councils to publish information to help the public assess their performance.

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Contents

Commission findings

1 The Commission accepts this report by the Controller of Audit on the Audit of Best Value of Aberdeen City Council. The Commission welcomes the progress by the council in a number of areas since the Commission's Best Value report on the council in 2009, including financial planning and management, and openness to alternative service delivery arrangements. There is a great deal more improvement to be delivered and consolidated. We are encouraged by the council's self-awareness in recognising how it needs to improve.

2 The priority for the council, given its history, must be to continue its momentum, to evidence improvements and to ensure that these are firmly embedded throughout the council.

3 In particular, the council needs to:

- ensure the council's vision is translated into clear objectives and targets with links to service plans

- take further steps to encourage and consolidate elected members' ownership of the council's vision

- make better use of the development framework for elected members so that members' development needs are being met to help them fulfil their roles, and ensure elected members are receiving consistent information on service performance to enable them to discharge their scrutiny role effectively

- review and strengthen arrangements for employee engagement and communication to ensure all employees have a full understanding of the council's vision and priorities.

4 As it is too early to assess the effectiveness of much of the improvements put in place or which have yet to be fully implemented, we require the Controller of Audit to note our continuing interest in the council and to monitor and report back if there is evidence that improvements are not being delivered or embedded.

Introduction

1. The Local Government in Scotland Act 2003 created a statutory duty of Best Value for all councils. The Accounts Commission for Scotland is responsible for reporting to the public on the extent to which individual local authorities meet this duty. Staff from Audit Scotland carry out the audit work on Best Value, and the Controller of Audit provides audit reports to the Commission.

2. We base the scope of each audit of Best Value on a shared risk assessment that we carry out annually, working with colleagues from the other scrutiny bodies that cover local government. There is a Local Area Network (LAN) for each council, which produces an annual scrutiny plan that sets out expected activity by each scrutiny body over the forthcoming year. This means that audits of Best Value focus on the particular risks and key issues that individual councils face, and are coordinated with other inspections and scrutiny activity.

3. In 2008, following a public hearing, the Accounts Commission published an audit report about Best Value in Aberdeen City Council.[1] The Commission found that the council faced extremely serious challenges and was in a precarious financial position. The Commission requested a progress report in 2009. This report found that the council had made a good start but still had some way to go in addressing the Commission's findings.[2] The council's progress has been monitored by the LAN and by the appointed auditor on an ongoing basis.

4. In 2013, the Accounts Commission and the Auditor General for Scotland published a report on Community Planning in Aberdeen.[3] The Commission found that: 'Community Planning in Aberdeen has shown increasing self-awareness in recognising how it needs to improve. Recent improvements in governance structures have helped provide momentum… the partnership needs to show better leadership to get more out of community planning for the city' and '…a new long-term vision for the city provides a good basis, but this vision needs to be supported by clear priorities that are reflected in an agreed plan of action…'

5. In the annual scrutiny plan issued in June 2014,[4] the LAN noted that the following needed to be scrutinised:

- The leadership and direction of the council, given significant changes in the management and political leadership.

- Governance[5] and accountability,[6] as council and committee arrangements had changed.

6. The Accounts Commission has stressed the importance of effective political and managerial leadership in all councils. This is essential if councils are to meet their statutory duty of Best Value and continuously improve public services.

Commitment, leadership and good governance are central to securing Best Value. They are particularly important to ensure that councils use public money effectively and appropriately to deliver maximum benefit, particularly in a time of financial constraint. Our audit work assessed:

- whether the council has set a clear vision for Aberdeen that is shared across all parts of the council

- whether the council has effective systems in place to implement its vision and deliver Best Value

- whether the council has effective systems of scrutiny, performance management and improvement in place at the council and its arm's-length organisations

- the effectiveness of the working relationships between elected members and between elected members and officers.

7. A team from Audit Scotland carried out the audit work for this report in early 2015. The on-site work in the council took place from late January to early February. Our audit work included:

- interviewing senior officers and councillors

- running focus groups with administration and opposition councillors, and with senior managers

- observing a range of council and committee meetings

- reviewing documents such as council strategies, committee papers and performance reports.

8. We gratefully acknowledge the cooperation and assistance provided to the audit team by the Leader of the Council Councillor Jenny Laing, Chief Executive Angela Scott, Head of Service Ciaran Monaghan and all of the elected members and officers we spoke to during the audit.

Summary

9. Since the publication of the Commission's 2009 Best Value audit report, Aberdeen City Council has changed significantly. It has streamlined its organisational structures, put robust medium-term budget planning in place and dealt with the serious financial deficit it faced. Over the same period, there have been other significant changes at the council. For example, the council moved its headquarters, changed administration in 2012 and has had two changes of chief executive.

10. The current chief executive has been in post since July 2014. She recognises the council's arrangements need to improve further and is putting a significant programme of improvement actions in place. The programme covers delivery of outcomes, and improvements to customer experience, staff experience and use of resources. For many of the actions taken so far, it is too early to assess if they will be effective, but there is significant consistency between existing plans at the council and the areas for improvement we identified during our audit. These include the need for:

- greater clarity on corporate and service priorities, ensuring these are reflected in service plans and performance

- improvements to performance management arrangements that will lead to a higher quality of performance reporting, more effective scrutiny by elected members and an increased focus on improving services

- implementation of more effective governance arrangements for arm's-length organisations

- continued progress in learning and development for elected members.

11. Prioritising this corporate improvement activity is important, as it will help the council sustain the recent pace of change in key areas. A number of factors will affect the council's capacity to do this, including the need to consolidate recent changes to its organisational and political decision-making structures, the need to sustain and improve service performance and the fact that recent recruitment to a number of management posts will take time to be fully effective.

12. The council has had a history of strained political working relationships and made some contentious decisions that have attracted high-profile media attention and public interest. Examples include major capital infrastructure projects such as the Marischal Square development, and referring to the 2014 Scottish referendum in its 2014 council tax letter to households. These have divided opinion and attracted complaints and controversy.

13. However, recent steps to improve working relationships have been positive. The new leader of the council, who was appointed in May 2014, and the new chief executive have an effective working relationship, and both demonstrate inclusive leadership styles. They are encouraging effective working using cross-party groups, and there are signs that working relationships are improving, although on occasion disrespectful exchanges between elected members do occur.

14. The council needs to sustain and build on the progress it has made, including implementation of its plans to introduce further protocols and guidance for the way members work with each other and with officers. These can help effective working and difficult decision-making in challenging times in the future, especially in the run-up to Scottish Parliament and council elections over the next two years.

15. The council has improved its financial position since 2008 and it now has a record of sound financial management. This is a good foundation for delivering its next five-year business plan. The council has also built up considerable reserves. It can use these to meet unexpected and unplanned spending, but can do this only once. The council is at the early stages of identifying future savings as it moves into its next five-year budget cycle. In doing so, it can build on the good practice it has demonstrated in budget planning in recent years.

16. It is evident that there has been significant change at the council recently and the council's leadership has a focus on maintaining the momentum for improvement.

Background

17. The Best Value audit work at Aberdeen City Council took place in early 2015, around six months after the new council leader and chief executive were appointed. The chief executive was previously the director of corporate governance. She started with the council in that post in November 2013. The new chief executive is leading an ambitious programme of change that includes putting in place a new organisational structure that was proposed by her predecessor. The plans for operational improvement are wide ranging and include improving business processes and reviewing the management priorities and wider staff culture. As much of the work is at an early stage, it is not possible for us to assess if it is effective.

18. In response to the serious financial challenges that the Commission highlighted in 2008, the council put in place an extensive priority-based budgeting process. This involved examining options for spending and for delivering services, so the council could rebuild its budgets. The council also put a voluntary early release scheme in place for employees and developed a five-year business plan. These processes were fundamental to turning round the council's financial position.

19. In its 2009 findings, the Accounts Commission welcomed the new management structures and senior management team that the council had put in place. The new chief executive at that time had recruited a new senior management team and reduced the numbers of heads of service from 25 to 16. The Commission noted early signs of change in the organisational culture and progress in implementing new performance management and budget setting processes. It recognised that, at that stage, the council still had much to do. It would also need to maintain a broad consensus to support the overall direction of travel and pace of change.

20. There have been further changes to Aberdeen City Council's political and managerial leadership since then. The May 2012 election led to a change in administration from a SNP–Liberal Democrat coalition, with a majority of 27 out of 43 elected members, to a Labour–Conservative–Independent coalition comprising 23 of the 43 elected members. The current administration introduced its 'Aberdeen: the Smarter City' programme of priorities in August 2012.

21. Exhibit 1 (page 10) illustrates the timeline of relevant events since the 2012 local government election.

Exhibit 1
Timeline of relevant events 2012 to 2014

2012   **May:** Local government election – the SNP–Liberal Democrat coalition is replaced by a Labour–Conservative–Independent coalition

August: The council approves 'Aberdeen: the Smarter City', the administration's programme and vision for the city

2013   **August:** Community Planning Aberdeen publishes its new Single Outcome Agreement (SOA)[1]

Autumn: Change in directors - director of social care and wellbeing and director of corporate governance leave

October: The council approves Aberdeen City's Strategic Infrastructure Plan (SIP)

December: The council agrees to develop a masterplan to regenerate the city centre

2014   **February:** The council agrees to prepare a bid for City Deal funding

May: Aberdeen City Council approves a new corporate management structure with three directorates and a joint post with NHS Grampian

Councillor Jenny Laing replaces Councillor Barney Crockett as Leader of Labour Group and the council

July: Angela Scott leaves her post as director of corporate governance to replace Valerie Watts as chief executive

August: The council approves a new heads of service structure below the corporate management structure

October: The council's committees are changed so they are in line with the new organisational structure

Note: 1. The SOA sets out a vision for 2022 that aims to deliver better outcomes for the people in Aberdeen City. It also sets out the role that Community Planning Aberdeen will play.
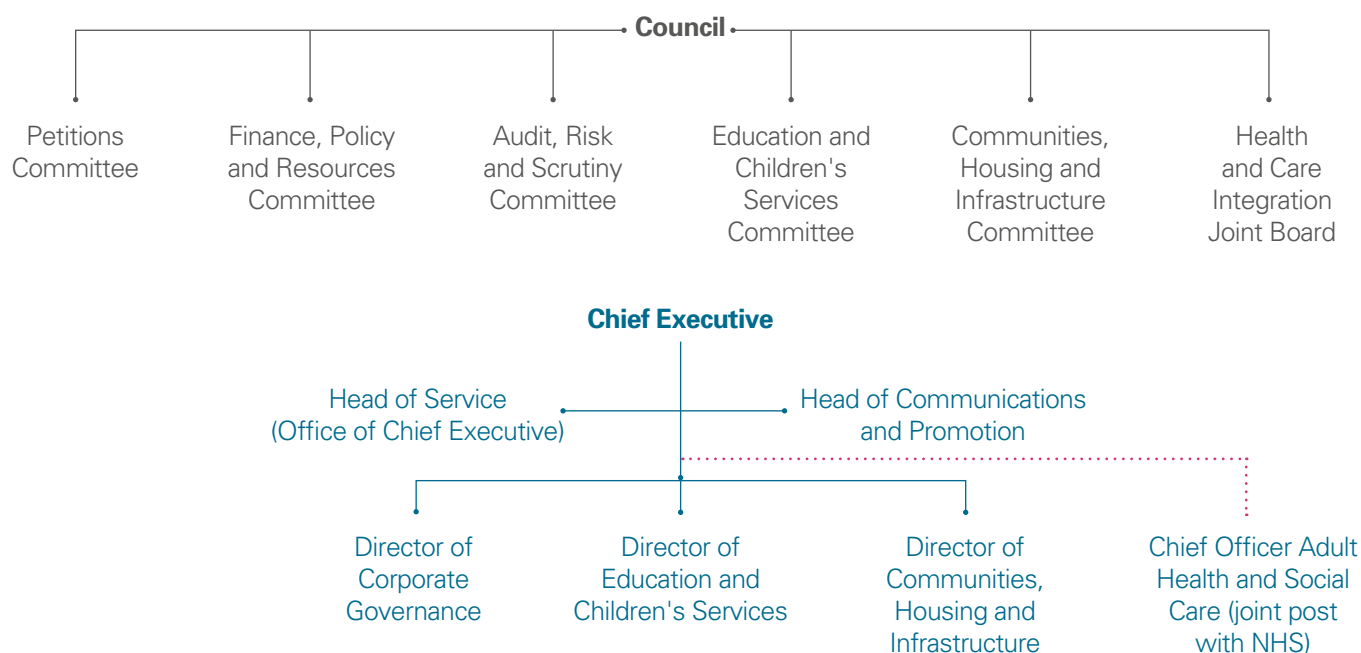
Source: Audit Scotland

22. During 2012/13, there were changes to senior officer posts. New appointments were made to three of the five director posts and the council appointed a new head of finance. The council approved a new management structure in May 2014 consisting of three directorates and a joint post with NHS Grampian to integrate adult health and social care services provided by the council and the health board. This has reduced the number of directorates from five to four. The current chief executive took up post in July 2014, replacing the previous chief executive who took up the post in March 2011.

23. In October 2014, the council revised its committee structure to bring it in line with the new organisational structure, moving from five to three major service committees. Exhibit 2 shows the current committee and management structures. The council appointed its new leader in May 2014. This appointment followed a decision taken at the Labour Group's annual general meeting to select a new group leader.

Exhibit 2
Aberdeen City Council core committee and corporate management structures

Source: Audit Scotland

24. During the last few years, the council has made some high-profile decisions that have strained political working relationships. These have mainly been about strategic infrastructure and planning decisions, for example on plans for the city's Union Terrace Gardens and Marischal Square. There is significant public interest in these issues, and Audit Scotland has received correspondence from members of the public about Marischal Square. We will consider the points they raise on this specific issue as part of the annual audit, reporting to the elected members and the Controller of Audit in autumn 2015. However, current arrangements in the council provide a strong focus on implementing a clear framework for delivering infrastructure plans and these include cross-party discussions and commitment to the plans.

25. Strained relations have also been evident between the council and the Scottish Government. These centred on a visit by the then First Minister to a local school in June 2013 and subsequent protocols developed by the council. Again, this attracted considerable public attention and heightened political tensions both locally and nationally.

26. Controversy also arose in the early part of 2014 as a result of the content of a letter from the leader of the council to all households that was enclosed with annual council tax bills. The letter included a reference to the forthcoming independence referendum and informed householders of the position taken by the council – which was in favour of Aberdeen being part of the United Kingdom. The statement in the council tax letter caused significant public concern and Audit Scotland received high numbers of correspondence from members of the public. In response, the Controller of Audit considered the issue, and the matter was also subject to a separate investigation by the Standards Commission.

27. The Controller of Audit considered that while the position as set out in the paragraph was an accurate statement of council policy, it was only one of 11 of the council's key policy or vision statements. He said that including such a statement in council tax documents was very unusual and he was not aware of any other council including similar material about the referendum with council tax bills. Council tax regulations refer to what information should be included but do not explicitly prevent specific types of information from being included with council tax bills.

28. A hearing by the Standards Commission, concluded on 16 April 2015, found that councillors had not breached the Code of Conduct for Councillors. The hearing panel found that: 'The use of officers' time and council resources was legitimate and in furtherance of council business. The panel accepted that the paragraph of the letter was a restatement of Aberdeen City Council policy, which had been in the public domain since December 2013' and '…the panel was not persuaded that the paragraph in the letter amounted to 'party political or campaigning activities'. There was a history of such a publication of this style, at this time, to accompany Aberdeen City Council tax letters.'

Audit assessment
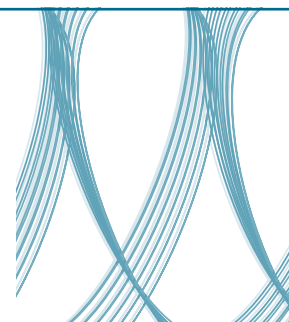
Leadership and working relationships

The council leader and chief executive work effectively together and have encouraged improved cross-party working and relationships. However, relationships between elected members can be challenging at times. The council should consider introducing further guidance for elected members and officers.

29. The Accounts Commission report *How councils work: Roles and working relationships: are you getting it right?* [PDF] ⬚, notes that effective working relationships are characterised by:

- clearly understood political and managerial structures

- professional and constructive relationships between councillors and between councillors and officers.

It also notes the advantages of cross-party groups to encourage constructive working relationships.

30. The 2012/13 Annual Audit Report to Members and the Controller of Audit highlighted incidences of disrespectful behaviour from elected members in the council chamber. The report noted that this had led to the need for officers to cite the Code of Conduct for Councillors regularly. Strong local media interest in the council can heighten political tensions.

31. The elected members we spoke to are satisfied with the support they get from officers. For example, committee chairs welcome the regular meetings they have with directors. At times, elected members can robustly challenge officers. The officers we spoke to did not highlight any significant concerns with their working relationships with elected members.

The council leadership has encouraged more cross-party and consensual working
32. The council's new leader and chief executive are working effectively together. The chief executive has the support and confidence of the leader to develop and implement her improvement plans. It is too early to assess the effectiveness of the chief executive's plans for improvement but she is setting out a structured set of objectives with her extended corporate management team.

33. The leader and chief executive have an inclusive and consensual style of working, and this is helping to improve behaviours and working relationships.

However, elected members commented in interviews during this audit that instances of disrespectful behaviour still occur.

34. The council's leadership have taken positive steps to encourage joint working across political groups. Elected members we spoke to commented that cross-party meetings had improved in recent months and were more useful forums for discussion. This includes group leaders' meetings, which bring together leaders from across the council's political groups. Reflecting a more consensual approach, the current leader of the administration has brought the major strategic issues for the council to this group for cross-party discussion, including major infrastructure planning.

35. In June 2014, the council leader and the chief executive introduced a monthly meeting between the leaders of the administration groups and the Corporate Management Team (CMT). This is to allow the administration group to examine in detail the management team's progress with its priorities.

36. While these developments are important in establishing better working relationships across the council and can support effective delivery on key priorities, it will be important to bear in mind that transparency of decision-making and openness in scrutiny procedures are important, and these need to be at the core of the council's overall arrangements.

37. The *How councils work: Roles and working relationships* report notes that processes, systems and supporting documents do not guarantee good working relationships. But they do provide an essential framework and serve to remind people about what is expected, particularly when difficulties arise.

38. In 2012, the council assessed members' roles and responsibilities in response to the *How councils work* report. It found that most elected members understood the respective roles of councillors and officers. However, some were less clear on the distinction between the more strategic and monitoring role of elected members and the operational role of officers. Consequently, in September 2012, the council approved a range of actions to improve elected member understanding of roles and responsibilities. The council did not take forward a recommendation to supplement the Code of Conduct for Councillors with a more tailored Aberdeen City Council code, but agreed to keep this under review.

The council has an elected member training and development framework but more progress could be made with the level of engagement from members

39. The council uses an elected member development framework that has been agreed by the political group leaders. It sets out a structured programme of development options and draws on good practice set out in the Improvement Service National Strategy. Elected members we spoke to consider the training they receive to be of value. However, the council reports that the uptake of many courses has been low with only small numbers of councillors attending. The council has yet to formally adopt the framework; doing so could contribute to better engagement from elected members. The council provided a good level of training for its new Audit, Risk and Scrutiny Committee and all members were required to attend. This training was well received and it is commendable that some elected members, who are not members of the Audit, Risk and Scrutiny Committee, chose to attend the training to help them with their wider scrutiny role.

40. The council should ensure that all elected members review their development needs and actively encourage them to take up appropriate training opportunities, building on the effective approaches it has already developed. Elected members have a responsibility to attend training. If they do not participate in the training, this may mean that elected members are not as up to date on important issues for the council, their ward and their constituents.

Vision and strategic direction

The council has an agreed vision but it is not supported by a clear set of objectives and targets. The council needs to update its corporate planning framework to reflect shifts in corporate priorities and objectives. The council has a strong focus on developing infrastructure for the city. The chief executive is developing a corporate programme focused on improving customer experience, staff experience and use of its resources.

41. In August 2012, under the previous leader and chief executive, the council formally adopted 'Aberdeen: the Smarter City' as its corporate vision. It sets out high-level priorities around six major themes:

- Smarter governance (Participation)

- Smarter living (Quality of Life)

- Smarter people (Social and Human Capital)

- Smarter environment (Natural Resources)

- Smarter economy (Competitiveness)

- Smarter mobility (Transport and ICT).

42. The Smarter City vision does not define objectives and targets within its themes. The connections between the Smarter City vision and other plans are not clear, including the council's corporate plan, service plans and the Single Outcome Agreement. It is evident from discussions with elected members and senior officers that the council's current priorities are the strategic infrastructure plan and the internal improvement programmes currently in development. The current strategic and service level plans need updated or restructured to reflect shifts in priorities. The council needs to clarify its priorities and communicate these to staff. The most recent employee survey indicated that staff did not clearly understand the council's priorities.

43. The chief executive is aware that the corporate planning framework needs to be improved. She is planning a review of the council's overall service planning and performance management arrangements. This work is at the early stages. However, the council has made progress in putting in place effective planning and monitoring arrangements for its infrastructure development programme for the city and can build on this for other areas.

44. It is important that the council sets clear priorities for its services, particularly given there is evidence of some significant areas for improvement in service performance. The council's priorities in areas such as older people's care, educational attainment, and reducing inequalities are not clear. The chief

executive is aware of the need to incorporate the council's overall priorities for services into its overall planning framework, including making closer links with community planning.

The council has a focus on infrastructure development to revitalise the city. It is taking steps to secure political consensus over this in the longer term

45. Aberdeen has experienced strong economic growth through the oil industry and this has put its infrastructure under significant pressure. The city's infrastructure needs include, for example, developments in housing, roads, transportation and digital connectivity. They have a pivotal role in enhancing growth and supporting economic development. The council recognises this context and its 2013 Strategic Infrastructure Plan (SIP) clearly sets out a single programme of priorities for improving the city. It is also working closely with Aberdeenshire Council, the private sector and other partners to develop its City Region Deal proposal.[7] This aims to attract additional government funding for its infrastructure programme.

46. The SIP brings a diverse range of development projects into a single programme. A 25-year masterplan will include building schools and care homes, building affordable housing, transport developments and city centre regeneration. The SIP aligns with the local development plan and parts of the Smarter City vision such as housing, transportation, and providing facilities for social care and education.

47. The council engaged well with businesses to identify the overall priorities for the SIP. In June 2013, it held a visualisation day of influential leaders and representatives from all major sectors in Aberdeen. They included representatives from the oil and gas, construction, energy, transport, property, retail, tourism, academic, financial, technology and public sectors.

48. It is important in all councils that elected members work constructively together to support the work of the council, and deliver positive outcomes for the community as a whole. In Aberdeen, sustaining the city's infrastructure plans over the longer term is an important part of the council's plans to improve outcomes for the city and therefore it is important that elected members work constructively on this agenda.

49. The council continues to face difficult decisions over its plans to develop the city. For example, a bidder challenged aspects of the tendering process for the Marischal Square development in the Court of Session in 2013. The court did not uphold the challenge. The council's decision to remove the proposal for the pedestrianisation of Broad Street from the project led to public demonstrations and a formal request to hold a special council meeting to review the decision. After a lengthy meeting, which included deputations by members of the public, the council agreed by a narrow margin to proceed with the development.

50. Importantly in this environment, the council has taken positive steps to achieve cross-party support for its long-term plans to develop the city. For example, its City Centre Regeneration Working Group has representatives from across political groupings, as well as from the academic and business communities. The group oversees the work of a private sector consultancy involved in delivering the city centre masterplan. The Group Leaders' meeting has also discussed strategic topics such as the city centre masterplan, the City Region Deal proposal, and an oil summit. At the time of our audit, the oil industry

was entering a period of uncertainty because of the declining oil price. The council responded well to this and in February 2015 initiated a summit of industry, business, and public sector representatives to discuss the implications and options for the city.

51. Councils face a period of some political uncertainty over the next few years with the Scottish Parliament election in 2016 and the local government election in 2017. Cross-party forums give opportunities for political groups to reach some consensus over more difficult or contentious issues that are important for the city as a whole. The council should build on these arrangements to:

- help elected members across the political groups remain committed to long-term, strategic plans

- ensure there are clear and structured governance arrangements in place to support cross-party groups and any groups involving third parties.

Performance management and scrutiny

The council has more to do to create a culture of effective performance management and improvement. It has areas of good practice that it can build on. It needs to put in place more consistent performance reporting for all services and implement its proposals for governing arm's-length external organisations (ALEOs).

52. The 2009 Best Value progress report noted that the council still had work to do to introduce a performance culture throughout the organisation. Since then, the council has reviewed its arrangements. It has put in place an electronic system for monitoring its performance. The council has implemented priority-based budgeting and the systems developed for monitoring this are more advanced than the arrangements for monitoring other aspects of performance. The chief executive and CMT recognise refinements to the wider performance management arrangements are now needed, and this is reflected in current improvement plans.

53. Officers have access to detailed performance information through the council's electronic performance management system. The CMT monitors corporate performance, including progress with the strategic infrastructure programme. The council has developed a performance dashboard[8] to monitor progress of the SIP and this is scrutinised regularly at the Finance, Policy and Resources Committee. However, more widely, the quality of performance reporting to help elected members scrutinise performance varies.

54. The council needs to set clear overall priorities and link these to its corporate and service plans and its staff appraisal process. The chief executive recognises this and the need to link the performance measurement activity to the council's strategic plans. In addition, the chief executive is planning to refocus performance measurement on outcomes. This is related to her aim to improve customer experience, staff experience and use of resources. She is also planning to review the effectiveness of the council's employee appraisal process. This work was only at the early stages at the time of the audit. The chief executive acknowledges that these changes will take time to implement fully.

The council has good structures in place for scrutiny but can improve the performance information it provides to elected members

55. Elected members have an important role in scrutinising the service performance of the council and using this to drive improvement for the communities and service users they represent. Reporting good-quality performance information to committee is an essential part of supporting elected members in their scrutiny role. Aberdeen's councillors scrutinise performance mainly through the three service committees, each of which covers a range of services; through the Audit, Risk and Scrutiny Committee; and the Finance, Policy and Resources Committee.

56. Elected members should ensure they are clear about where performance needs to improve, the context for performance issues and what actions the council is taking to address weaker performance. Performance indicators for services in Aberdeen show that there are some areas where performance does not compare well with the level of performance for Scotland as a whole. These include important service areas for the city's communities, for example aspects of housing management and educational attainment. To be effective in their scrutiny role, elected members should require detailed information on:

- performance trends and progress against targets

- comparison with other councils

- the actions being taken by officers

- the context for the service that affects performance.

Exhibit 3 (page 19) shows a few examples of where these services do not compare well with other Scottish councils. A fuller picture of the council's performance and the context across all of its services is set out in the council's public performance reporting pages on its website.[9]

57. In our audit interviews some elected members said they felt there was not enough scrutiny of performance at committees, agendas were often very long, and they sometimes received too much information. From our review of council reports and minutes, we found that there is considerable variation in the extent and quality of reporting on performance. Reports, including the council's public performance reports, do not consistently show performance trends, progress against targets, or comparisons. This limits elected members' ability to scrutinise performance and drive improvement in key areas.

58. The council should ensure, as the new committee arrangements mature, that its service committees allow enough time on their agendas for elected members to scrutinise performance. It should simplify the data it reports and consider using exception reporting, that is highlighting where performance needs particular attention. This will help elected members focus on critical issues. Elected members should also be able to get access to more detailed information if they need it.

59. The council has information systems in place to support performance reporting and areas of good practice that it can build on. For example, the structured process to report progress with its SIP using a performance dashboard. This clearly sets out progress and risks in the council's
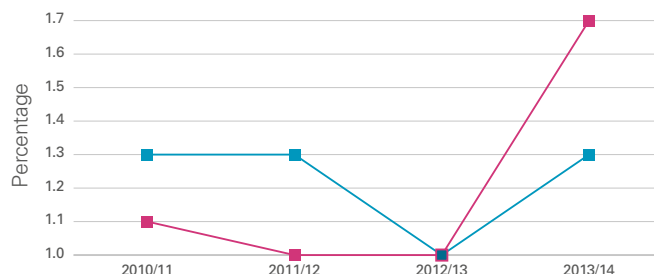
Exhibit 3
Examples of Aberdeen City Council's housing and education performance
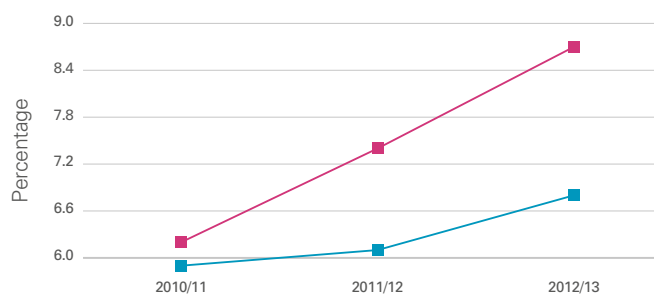Aberdeen City Council's performance compared with the Scotland average.

% of rent due in the year lost because of empty properties	
Rank in relation to other Scottish councils	**20 out of 26**

Rent arrears as a % of rent due	
Rank in relation to other Scottish councils (2012/13)	**19 out of 26**

% secondary school pupils achieving 5+ Scottish Credit and Qualifications Framework (SCQF) awards by end of S6	
Rank in relation to other Scottish councils	**21 out of 32**
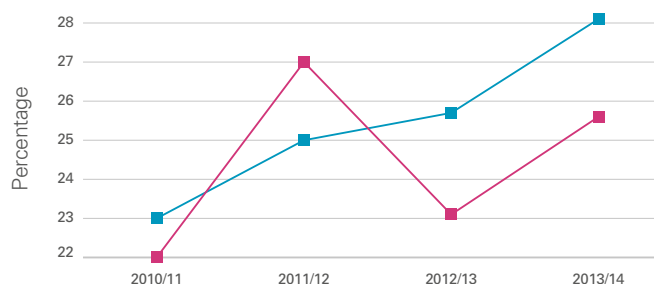
% secondary school pupils from deprived areas achieving 5+ SCQF awards by end of S6	
Rank in relation to other Scottish councils	**30 out of 32**
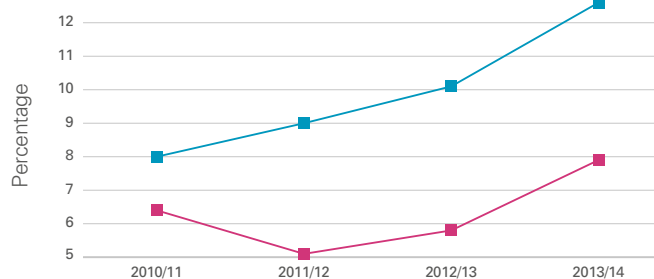
% of pupils entering a positive destination after leaving school (for example, higher education or employment)	
Rank in relation to other Scottish councils	**27 out of 32**
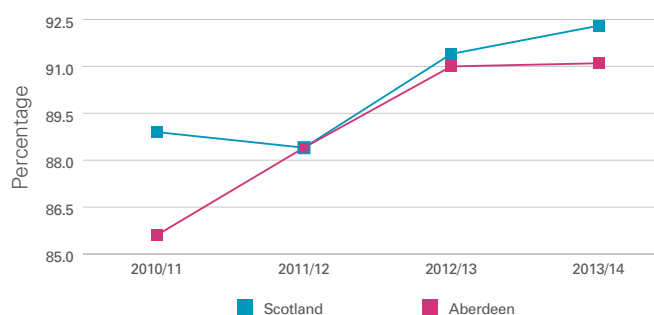
Note: Rank refers to performance in 2013/14 except for the rent arrears indicator where the latest data available are 2012/13. All trend information covers the period 2010/11 to 2013/14 except for the rent arrears indicator, which covers 2010/11 to 2012/13.

Source: Local Government Benchmarking Framework performance information 2013/14

infrastructure programme. The council is also piloting a corporate performance dashboard of council-wide data such as sickness absence, staff turnover and service-level indicators including customer satisfaction. The chief executive and CMT's current improvement programme includes a range of actions to further improve performance management and reporting. In developing these arrangements, it is important that elected members ensure that officers clearly understand what performance information they require and how they want it presented to them. This will help them scrutinise performance more effectively.

60. The *How councils work: Roles and working relationships* report notes that the effectiveness of audit and scrutiny committees is enhanced by good-quality and timely reports; specialised training for councillors to help them in their role; and chairing by opposition members. Aberdeen City Council has put in place several aspects of this good practice. For example, the convener of the Audit, Risk and Scrutiny Committee is required to be a member of the largest opposition group, and all committee members have received training on scrutiny, including risk management. At the time of our audit, the committee had only met twice since the new committee arrangements began, so it was too early to assess if it was being effective. However, with its focus on risk, performance, and external audit reports, it is showing signs of being a good model for taking forward scrutiny.

The council needs to progress its plans to put in place systematic monitoring of its ALEOs

61. The Accounts Commission report *How councils work: Arm's-length external organisations (ALEOs): are you getting it right?* [PDF] ⬏, notes that councils need good-quality monitoring information of ALEOs so they are aware of their finances, risks and performance. Information should be current to allow prompt action to be taken. Elected members must clearly understand their roles in relation to arm's-length organisations to ensure that they have the appropriate skills and are aware of the potential for conflicts of interest.

62. The council uses ALEOs to deliver services in areas such as sports and recreation, conference facilities, and more recently older people's care services (Exhibit 4, page 21). Councils are increasingly using this approach to delivering services. The council has noted that its spending through ALEOs has grown from less than one per cent in 2009/10 to almost nine per cent of its revenue budget in 2014/15.

Exhibit 4
Scale of Aberdeen City Council's largest ALEOs

Organisation	Functions	Approximate turnover[1]
Bon Accord Support Services Ltd	Delivers care services and associated support services for elderly care in Aberdeen	£16.7m
Bon Accord Care Ltd	Provides regulated care services to Bon Accord Support	£12.9m
Sport Aberdeen Ltd	Indoor and outdoor sports and recreational facilities, including swimming pools and golf courses	£10.8m
Aberdeen Exhibition and Conference Centre Ltd	Managing and organising exhibitions, conferences and other events	£7.1m
Aberdeen Sports Village Ltd	Sports and recreational facilities, including elite sports facilities, and organising sports and recreational activities	£2.6m
Aberdeen Heat and Power Ltd	Provides affordable energy, with low environmental impact	£2.3m

Note: 1. Figures at 2012/13.

Source: Aberdeen City Council

63. In February 2014, the council set out a sound proposal to strengthen its governance arrangements for these bodies (Exhibit 5).

Exhibit 5
The council's proposal for overseeing its ALEOs

Acting on advice from its internal auditors, the council proposed using 'governance hubs'. These bring together service representatives and officers from the council's finance, legal, human resources, risk management and procurement teams. Their role will be to scrutinise in detail each of the council's significant ALEOs.

This will involve regularly meeting with the ALEOs and reviewing a range of risk and performance information. The hubs will report to service committees twice a year on ALEOs' operational performance (including financial performance), people performance, risk management and service quality. The hubs will also report quarterly to the Audit, Risk and Scrutiny Committee, which retains overall responsibility for scrutinising performance.

Source: Audit Scotland

64. The council's progress in implementing these proposals has been slow. Officers monitor and liaise with ALEOs regularly, and there are some examples of reports to elected members. However, the hub model to report through to elected members systematically is not yet in place.

65. The new chief executive is aware that this is an issue. The ongoing organisational restructure, including changes within the Corporate Governance directorate, has affected the council's progress with implementing the hub model. A report to the council's May 2015 Extended Corporate Management Team set out plans to take forward the hub model. At the time of our audit, an initial meeting was planned for June 2015 that would report to the following Audit, Risk and Scrutiny Committee.

66. The council should also review its practice and put in place clear protocols and guidance for elected members taking a role on ALEOs. It operates a range of different approaches. In the case of Bon Accord Care Ltd, elected members do not sit on the ALEO's board. This helps to reduce the risk of conflicts of interest through a clear division of roles and responsibilities. In other ALEOs, the council nominates elected members to ALEO boards, typically in proportion to the political make-up of the administration. There is no clear process for their selection, for example that takes their skills and experience into account.

67. At the time of our audit fieldwork in February 2015, the council's finance team had just introduced the first meeting of a forum that will continue on a quarterly cycle to bring together finance officer representatives from across all ALEOs. This is a good example of the council working with its ALEOs to share its perspective of the financial climate and to discuss expectations and common issues relevant to ALEOs. At the initial meeting, representatives discussed human resources, including the living wage and progress with equal pay claims. The forum also discussed the potential for a collaborative approach to identify savings and efficiencies that would benefit both parties.

Financial management and organisational improvement

The council has established a record of sound financial planning and management. This is a good foundation for delivering its next five-year business plan. It must manage its priorities carefully to ensure it is able to deliver these against a backdrop of continuing change and workforce pressures.

### The council has continued to strengthen its financial management and programme management

68. Financial management in the council is sound and it has a robust medium-term budget-setting process in place. The council has also recognised the need for long-term financial planning by setting out the social and economic factors likely to impact on its financial plans up to 2050. This long-term view of the challenges ahead will provide a useful context for considering the impact of potentially difficult decisions ahead.

69. Before 2008 the council incurred significant deficits by overspending social work budgets due to increased demand for services and the cost of dealing with equal pay claims. In response to the critical findings in the 2008 Best Value report the council stabilised its financial position. This involved releasing more than 500 staff using an early release scheme. After a period of significant financial deficits,

the council reported a surplus position against its 2008/09 budget (Exhibit 6). In 2010, the council introduced its first five-year business plan and priority-based budget (PBB).

Exhibit 6
Aberdeen City Council – Total General Fund surplus
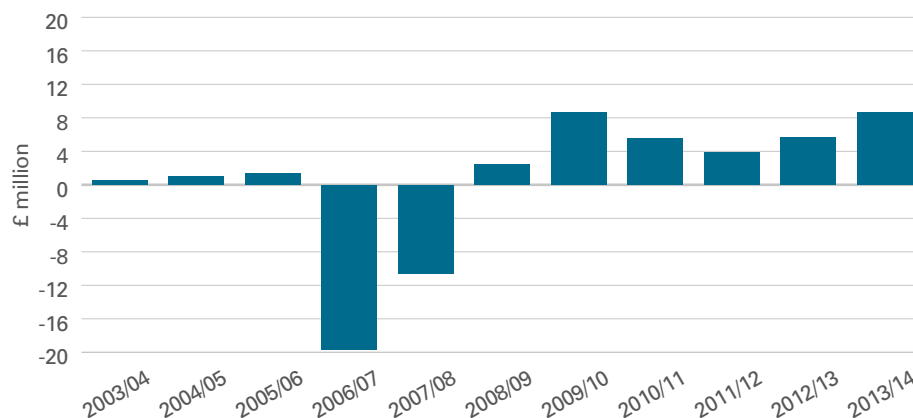
Source: Audit Scotland

70. The council's business plan sets out its strategic budget priorities over a five-year period. The PBB process helps budget decision-making by identifying a wide range of savings and efficiency improvement projects within a single programme.

71. The council established its programme management office (PMO) in March 2011 to deliver the business plan and PBB. The PMO brings together commercial expertise including procurement, legal, financial and project management. Using this approach, the council made £72 million of savings over the five-year period to 2015/16. It achieved these savings mainly by reducing its workforce, changing procurement arrangements for buying goods and services, service redesign – that is, delivering services in different ways – and managing vacancies.

72. The council has usable reserves including a General Fund and capital fund. These help the council to manage unpredictable financial pressures and plan for future spending commitments. Between 31 March 2010 and 31 March 2014, the council was able to increase its usable reserves from £45 million to £117 million. Around 40 per cent of the total is allocated for specific purposes. This includes £18 million which has been set aside to provide some flexibility for services if their budget assumptions are incorrect and result in additional costs.

73. The council has an annual revenue budget of approximately £460 million and over the next few years it has identified a shortfall between income and the cost of providing services. For the five-year period ending 31 March 2020, the council needs to reduce its cumulative spending by £50 million. While the level of reserves will provide some cushion, they are a contingency fund that the council can only use once. The council is identifying further savings through procurement and service redesign. The chief executive has also started a programme to

develop the council's budgeting process to link it more closely to the outcomes it is aiming to achieve.

74. The council recently issued a workforce planning document, S*haping Our Future Workforce 2015-2020*. It sets out a good corporate framework for directorates to identify workforce demands and the actions needed to bridge any gaps. The effectiveness of this will depend on the approach each service directorate takes. At the time of our audit, this work was ongoing with each director being required to submit their individual workforce plans to their parent committee over the summer of 2015.

The council is open to alternative ways of working

75. Best Value requires councils to demonstrate continuous improvement. Options appraisal is an important part of this to ensure councils make the best use of public resources such as money and property. The council is open to new ways of working. This is clear from changes the council has implemented over recent years, including:

- Significantly reducing its spending to 2015/16 through its medium-term budget planning process. This has included reducing its workforce, procurement and contract review efficiencies, and redesigning care services.

- Implementing a major office rationalisation in 2011 by bringing staff from across the council into a refurbished and modernised city centre location. It reduced the number of corporate offices from 17 in 2010 to ten in 2015 and it is identifying how to make further efficiencies through flexible working arrangements.

- Creating an arm's-length wholly owned company to deliver care services for older people and looking at opportunities to apply this model more widely.

- Setting up, as part of its shared service agenda, joint procurement and internal audit functions with Aberdeenshire Council. The PMO operates across both councils. The council also has a shared head of finance post with Shetland Islands Council.

76. The arrangement to share the head of finance post with Shetland Islands Council is a pilot exercise for one year to December 2015. This post carries the statutory finance role of the council (the Section 95 officer). We recognise this is an example of collaborative working that offers potential benefits through sharing expertise and costs between the two councils. However, there is a risk that the finance teams will not have the capacity to deal with major issues if they arise in both councils at the same time.

77. The arrangement was subject to a business case that recognised these risks. As part of its implementation, Aberdeen has strengthened its finance team. This included nominating a finance manager post to deputise for the head of finance. The council has committed to review the arrangement after six months' operation. We would also expect the councils to monitor the situation on an ongoing basis and only continue the arrangement if there are clear benefits and manageable risk. External auditors for Aberdeen City Council and Shetland Islands Council will also monitor the arrangement.

The council needs to carefully manage its corporate improvement programme so that it can sustain the recent pace of change

78. The council has increased its capacity for budget planning and change by enhancing the role of its programme management office and increasing the size and skills mix of this team. This PMO now manages the council's strategic infrastructure plan and it will also support the council's future improvement programmes. At the time of our audit, the council was recruiting to the posts of head of information technology and transformation, and the head of communications and promotion. The council has now filled these posts. They will be central to the council's plans for change.

79. Since the chief executive took up her post, she has progressed the management restructure planned by her predecessor. She is also putting a significant programme of actions in place for organisational improvement. These are now starting to be developed, although it is too early to assess if these arrangements are effective. Her improvement plans are wide ranging and include, for example, projects and actions to:

- develop an organisational culture focused on a balance of the use of resources, outcomes for customers and staff experience

- improve performance management arrangements and the connections between strategic plans, improvement planning and service planning

- develop arrangements for change and improvement to effectively manage financial challenges and equip staff to engage in this process

- create an 'Improvement and Transformation Hub', pulling together staff with a range of specialist skills into a corporate resource to support innovation and change across the organisation

- strengthen the organisation's approach to the management of risk, recognising that encouraging innovation and change needs enhanced risk management.

80. The council needs to assess the capacity of its employees to take forward its programme of change. The council's most recent employee survey of March 2015 highlighted employee concerns over workload pressures. As a prosperous city with a very high cost of living, Aberdeen has suffered historically from difficulties in recruiting employees including key workers such as carers, teachers, and trades people. This adds to the council's workforce pressures.

81. The chief executive's improvement plans recognise staff capacity and capability as core elements. She recognises the importance of staff being engaged in the improvement and transformation of the organisation. The recently appointed head of communications and promotion will have a key role in ensuring staff are informed, consulted and engaged in improvement and transformation activity. The council also has plans to engage elected members more closely in change and improvement through its elected member development framework. This now includes the role of elected members in promoting change and improvement.

82. The council now needs to manage its priorities carefully to deliver its programme of change. This includes its major infrastructure programme, the City Region Deal, and health and social care integration. It needs to consolidate its new organisation structure and develop its plans for its working culture and practices. Importantly, with this significant range of activity it must not lose sight of how services are performing.

Areas for improvement

83. Our report's summary notes that, at the time of our audit, the council was undergoing significant change, including recruiting to key posts. The council has established areas of good practice including its medium-term budget planning process. It has also taken positive steps to improve working relationships. It is important that the council continues to make progress in these areas and it should:

Vision and strategic direction

- review how the political priorities of Aberdeen: the Smarter City, the SIP, the City Region Deal and the City Centre Masterplan are linked through to service plans

- consider the capacity and capability required to deliver the strategic priorities against the recruitment challenges experienced in the North East.

Leadership and working relationships

- build on the use of cross-party groups to help maintain political consensus and commitment to the council's long-term priorities

- sustain improved working relationships, and consider plans to introduce further protocols and guidance for member-to-member and member-to-officer working.

Performance management and scrutiny

- implement plans to refocus performance measurement on outcomes

- ensure clear links between the performance information submitted to members for scrutiny and the council's strategic plans

- fully implement arrangements for enhanced scrutiny of ALEOs through the governance hub.

Financial management and improvement

- ensure the necessary organisational capacity for transformation is in place in readiness for anticipated budget reductions

- build further elected member and staff engagement in the change programmes.

Endnotes
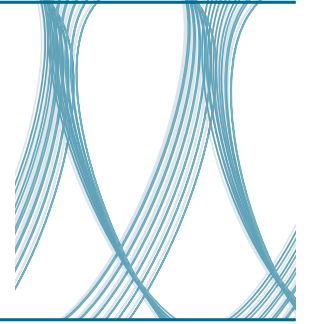
◀ 1   *Aberdeen City Council: Audit of Best Value and Community Planning* [PDF] ⬈, Accounts Commission, May 2008.

◀ 2   *Aberdeen City Council: Audit of Best Value and Community Planning, Progress Report* [PDF] ⬈, Accounts Commission, July 2009.

◀ 3   *Community planning in Aberdeen* [PDF] ⬈, Accounts Commission and Auditor General for Scotland, March 2013.

◀ 4   *Aberdeen City Council Assurance and Improvement Plan 2014–17 [PDF}* ⬈, Audit Scotland, May 2014.

◀ 5   **Governance** describes the structures, systems, processes, controls and behaviours by which an organisation manages its activities.

◀ 6   **Accountability** is the way a specific senior person in an organisation is held responsible for managing and planning how resources, for example money, are used and how well the organisation is performing. This includes reporting to elected members and making sure information is easily accessible to the public. Chief executives in local government are accountable to elected members.

◀ 7   **City Region Deals** are negotiated on an individual basis and allow city regions to gain financial support and powers from national government, giving local bodies greater control over spending and decision-making. In Aberdeen, the deal focuses on infrastructure and an economic strategy. It proposes the region receives up to £2.9 billion worth of funding from the Scottish and UK Governments as well as input from both councils, which have a combined capital plan programme over the next ten years that totals £1.4 billion.

◀ 8   In management information systems, a **performance dashboard** is an easy to read presentation of performance information often showing a graphical representation of current performance, comparative information and trends.

◀ 9   Aberdeen City Council – Aberdeen Performs ⬈

Aberdeen City Council

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