

The Audit of Best Value and  
Community Planning

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# Aberdeen City Council

Progress report



 AUDIT SCOTLAND

Prepared for the Accounts Commission  
July 2009

# The Accounts Commission

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

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 44 joint boards and committees (including police and fire and rescue services).

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Commission findings



**1.** When the Accounts Commission published its findings on the Best Value audit on Aberdeen City Council in May 2008 following a public hearing, it requested a further report from the Controller of Audit in 12 months' time. The Commission accepts this report as fulfilling that requirement. We recognise that the report gives a broad picture of the council's performance based on the work of Audit Scotland and service inspectorates and does not attempt a comprehensive review of all service delivery. We acknowledge the co-operation and assistance given to the audit process by elected members and officers of the council.

**2.** The Commission is encouraged by the prompt and decisive action taken by the council, and taking into account the timescale, commends the council on its progress across a range of activity. We welcome in particular the steps taken to establish new management structures and a new senior management team, the early signs of changes in organisational culture and the progress in implementing a corporate performance management process.

**3.** We are also pleased to note that the council has started to improve budget setting. It now needs to build on this to establish robust and sustainable financial management and monitoring, which will be vital in addressing the challenging financial position it continues to face. This is a key issue in any circumstances and will be all the more challenging for the council given the recession and the financial pressures facing local government.

**4.** In aggregate, the council has made a good start in addressing our findings on the initial Best Value audit report, and we believe that there is a very promising base for further improvement. Inevitably at this stage

the council still has much to do and it needs to ensure that the progress is sustained and supported throughout the organisation. In doing so, it needs to mitigate the risks to its ambitious improvement programme arising from dependence on a small number of elected members and officers. The council also needs to maintain a broad consensus to support the overall direction of travel and pace of change.

**5.** As part of the streamlining of scrutiny that the Scottish Government has asked the Accounts Commission to be involved in, Audit Scotland is currently working closely with other scrutiny bodies to deliver a shared risk assessment of councils. The Controller of Audit's report and these findings, showing a picture of encouraging initial progress but with some way to go, will feature in the next risk assessment of Aberdeen City Council which will, in turn, inform the nature and timing of future external scrutiny.

# Introduction



The Local Government in Scotland Act 2003 introduced new statutory duties relating to Best Value and Community Planning. The report on the Audit of Best Value and Community Planning undertaken at Aberdeen City Council and the Accounts Commission's findings were published in May 2008 following a public hearing. The hearing also considered the issues raised in a separate Controller of Audit report about property transactions, which was published in April 2008.

The Best Value audit report described a council that faced extremely serious challenges and one which had much to do to create a culture consistent with delivering continuous improvement. It found that the council was in a precarious financial position and that, while there were some areas which demonstrated good service performance, there were significant weaknesses in major services.

In its findings, the Commission said that Aberdeen City Council was facing extremely serious challenges and that it lacked a full appreciation on the seriousness of its situation. The Commission was concerned that leadership had not been as effective as it should have been and that the council had organisational structures that were not fit for purpose, lacked effective scrutiny and suffered from poor staff morale. Furthermore, the Commission considered that the council lacked the capacity to carry forward the changes that were needed.

The Commission highlighted a number of areas which the council would have to improve if it was to deliver Best Value. It recommended that the council needed to:

- **recruit a new and experienced chief executive**
- **establish an all party leadership board to take ownership of the improvement plan**
- **review its organisational structures**

- **put in place robust and effective governance arrangements**
- **revise scrutiny arrangements to enhance public confidence**
- **revise arrangements to ensure appropriate governance and accountability for property transactions.**

The Commission recommended that the council should secure appropriate external assistance from peers to assist it in implementing the findings of the report. It also recommended that the council should appoint an independent local government finance expert to assist in its budget setting.

The Commission required a formal statutory report from the Controller of Audit on the council's progress as at May 2009. This report provides an update on the progress that Aberdeen City Council has made up to June 2009. The Social Work Inspection Agency (SWIA) published a performance inspection report in June 2008, and Her Majesty's Inspectorate of Education (HMIE) published a child protection inspection report in November 2008. Both of the reports were largely critical and required follow-up inspection work in 2009. SWIA was also scheduled to carry out a follow-up inspection on substance misuse across the Grampian area, which would include Aberdeenshire, Aberdeen City and Moray Councils and their partners. In December 2008, the Accounts Commission also considered a Section 102 Controller of Audit report on the qualification of the council's 2007/08 final accounts.

Audit Scotland hosted a 'round table' meeting of audit and inspection agencies in October 2008 to start discussions on the timing and nature of planned follow-up work. In consultation with the council it was agreed that Audit Scotland, SWIA and HMIE would coordinate and integrate follow-up activity while providing the necessary assurance for ministers and the public. Each of the above agencies

revised plans and timelines to support an integrated audit and inspection process. The Scottish Housing Regulator agreed to delay a planned inspection in 2009 and to consider the scope and timing of a future inspection, in the light of the follow-up work carried out by other agencies.

The audit and inspection work focused on the main issues in each of the respective reports. It included a joint planning process, shared information and a single phase of on-site work which included a number of joint sessions, leading to a shared evidence base to inform judgements. Our audit work involved file review, including a position statement from the council, interviews with members and officers, workshops with trade unions, middle managers and front-line staff and the observation of committee and management meetings.

The HMIE joint follow-through report on child protection was published in June 2009 and is available on [www.hmie.gov.uk](http://www.hmie.gov.uk)

The SWIA follow-up report on performance will be published in July 2009, and the Grampian substance misuse report will be published in August. Both will be available on [www.swia.gov.uk](http://www.swia.gov.uk)

Aberdeen City Council is made up of 15 Liberal Democrat members, 13 SNP members, ten Labour members, four Conservative members and an independent member. The administration is a Liberal Democrat/SNP coalition. In June 2009, the Liberal Democrat group decided to change group leader and as a result Councillor John Stewart will replace Councillor Katherine Dean as leader of the council in August 2009.

We gratefully acknowledge the co-operation and assistance provided to the audit team by members and officers of Aberdeen City Council and its partners.

# Conclusions



The council has taken prompt action in implementing plans to address the issues highlighted in the Best Value audit report and in the Accounts Commission's findings. It has put in place wide-ranging and significant new arrangements to support improvement. The unaudited financial statements for 2008/09 show a better than expected outturn, but the council still faces a challenging financial situation, which is exacerbated by the current economic climate.

The full impact of the action taken to date has yet to flow through and the council understands that there is still a long way to go before it can demonstrate the attributes of a Best Value council. The changes to date provide a solid foundation to support ongoing improvement.

**1.** The council has gone through significant change since May 2008 and made good progress in implementing plans to address the issues raised in the Accounts Commission findings and Best Value audit report. Since May 2008 it has:

- appointed a new chief executive
- agreed new management structures and appointed directors, four of whom are external appointments
- agreed new political decision-making and is in the process of reviewing supporting governance arrangements including new standing orders, schemes of delegation and financial regulations
- taken difficult decisions in implementing plans to address the financial challenges and adopted an improved budget process

- engaged positively and constructively with an external support group (ESG) including council leaders, ex-leaders and chief executives, and secured other external assistance to improve capacity
- engaged constructively with its staff and external partners.

**2.** Exhibit 1 (overleaf) summarises the recommendations made by the Accounts Commission and the action that the council has taken to respond to these. Further details are provided in the sections that follow.

**3.** The council's financial position remains challenging and is exacerbated by the current financial climate. The unaudited financial statements for 2008/09 show an increase in the general fund balance of £6.09 million, compared to an original budgeted position of no movement. This was achieved through significant savings being made during the year and one-off support totalling £17.18 million (£10.65 million from the capital fund and borrowing consent from the Scottish Government of £6.54 million). The council recognises that this approach is not sustainable and has improved the budget setting and monitoring processes during 2008/09, although further work is needed to improve budget monitoring.

**4.** The council has taken action to improve and develop the leadership, capacity and culture of the organisation. The all-party leadership board has helped to drive forward improvement in the council, though more recently there have been increasing signs of tension within some of the party groups. It is important that the council maintains a broad consensus to help it implement the changes it has agreed and to support further improvement.

**5.** The interim chief executive and the new chief executive have had a positive impact on the council, and senior officers have engaged constructively with the improvement programme. The council has recognised the need to build capacity within the organisation and has done this by actively securing external support and by developing its existing capacity.

**6.** The council has implemented a new management structure to improve clarity and accountability. It has agreed revised political decision-making structures and is implementing new governance arrangements. There are early signs that the culture of the council is changing, though it will take time for a new culture to become embedded.

**7.** The council is making progress in establishing a strategic approach to workforce planning. It is developing an inclusive approach to communicating with and involving staff in the review of management structures and other improvement activity, and staff morale is showing signs of improvement.

**8.** An HMIE follow-through inspection report into services to protect children and young people, published in June 2009, indicates there have been improvements to child protection services. SWIA will publish a follow-up inspection report into the performance of social work services in July 2009.

**9.** The council is moving in the right direction and there is a clear commitment to improve. The council's self-awareness has improved and it understands that it must continue to clearly identify and focus on its priorities and what needs to improve for the future.

## Exhibit 1

### Summary of council action in response to Accounts Commission findings

Commission recommendation	Action taken
'Action should begin immediately to recruit a new and experienced chief executive. The interview panel should include representation from all political groups on the council and should have external advisers.'	The council had an interim chief executive in post from August 2008 and a permanent chief executive took up post in December 2008. The recruitment panel included representation from all political groups and was supported by external advisers.
'The council should secure appropriate external assistance from peers, to assist it in implementing these findings and taking forward the conclusions of the Controller of Audit's reports.'	The council has secured external assistance from a range of sources, including an ESG made up of senior members and officers. The council and the ESG met regularly between June and October 2008 and met to review progress in January 2009.
'We would encourage the council to establish an all-party leadership board for the specific purpose of taking ownership of its improvement plan.'	The council established an all-party leadership board in June 2008. The board's remit includes ownership of the improvement plan.
'Immediately following the appointment of a new chief executive a review of the council's organisational structure should be undertaken. There should be full engagement with employees in considering the options for this structure.'	The council introduced interim management arrangements with effect from September 2008. Formal and informal consultation and engagement took place during 2008 and 2009 and the council agreed a new management structure in March 2009.
'The council should appoint an independent local government finance expert to establish whether the council's proposed savings are accurate and achievable, and to closely monitor the delivery of the savings. We also recommend that the council's external auditor has access to all papers and minutes of the budgetary review working group and be entitled to attend all meetings.'	The interim chief executive also fulfilled the role of local government finance expert. The council anticipates that the adviser will play an independent advisory/moderating role during 2009. The external auditor has access to budget monitoring board meetings and papers.
'The council should ensure that robust and effective governance arrangements are in place, including officers producing reports that outline policy options, members receiving all committee papers in accordance with the timescales laid down in the Local Government (Access to Information) Act and the council's standing orders, and members attending appropriate training courses.'	The council is carrying out a comprehensive review of its governance arrangements including; political decision-making structures, standing orders, financial regulations, schemes of delegation and codes of conduct for members and officers. The council's report format has been reviewed and arrangements are in place to support training for members. The timeliness of reports still needs to improve.
'To enhance public confidence in scrutiny, we recommend that scrutiny arrangements be chaired by a member of an opposition party.'	An opposition-chaired scrutiny panel has been in place since July 2008.
'All significant property transactions should be signed off by both the chief financial officer and the monitoring officer to ensure appropriate governance and accountability.'	Since November 2008, significant property transactions have been signed off by the chief financial officer and the monitoring officer. The council agreed a property transactions protocol in August 2008.

**10.** There are, however, still some areas of significant risk:

- The financial position remains challenging and is exacerbated by the external economic climate.
- The council has an ambitious improvement programme, and it needs to ensure that the pace of change is sustainable and that it is properly prioritised, resourced and monitored.
- Much of the progress has been dependent on a small number of members and officers, in particular the leadership board and new chief executive, and the council needs to ensure that the improvement agenda is owned throughout the organisation.

**11.** The council still has much to do and has a challenging improvement agenda. It needs to sustain the pace of change and continue to improve its internal capacity. It needs to focus on embedding its new structures and arrangements in order that it can realise the improvement plan and provide Best Value for its citizens.

# Progress in Aberdeen City Council



## The improvement programme

The council has taken prompt action in implementing plans to address the issues highlighted in the Best Value audit report and provide a solid foundation to support ongoing improvement.

**12.** Following the Accounts Commission hearing and the publication of the Best Value audit report in May 2008, the council agreed an action plan and started to respond to the issues raised and the Accounts Commission’s recommendations.

**13.** The council has engaged constructively with an external support group (ESG) since June 2008. The ESG was facilitated by COSLA and SOLACE and included council leaders, ex-leaders, and chief executives from: Aberdeenshire Council, Angus Council, City of Edinburgh Council, Glasgow City Council, Inverclyde Council, North Lanarkshire Council, Scottish Borders Council and West Lothian Council.

**14.** The council prepared an initial improvement plan and a ‘transformation programme’ following the publication of the Best Value audit report and has been active in improvement work. The initial improvement work was helpful, but the council, guided by the ESG, agreed that efforts needed to be more focused on the key priorities.

**15.** In October 2008, the council agreed six priority areas for improvement:

- effectively managing the council’s financial resources and assets
- deliver efficient, effective, responsive and accessible services
- managing people
- communications
- effectively responding to external audits and inspections

## Exhibit 2

### Timeline of key events

Month	Key event
May 2008	Accounts Commission findings and BV audit report published.
June	All-party leadership board established. First meeting of leadership board and external support group.
July	Opposition-chaired scrutiny panel established. Programme director for Social Care took up post.
August	Interim chief executive took up post.
September	Interim strategic management arrangements put in place. Preparation of 2009/10 budget started.
December	Permanent chief executive took up post. Majority of key 2009/10 budget decisions made.
February 2009	2009/10 budget agreed.
March	Revised management structures agreed.
May	Revised capital programme agreed. Medium-term financial strategy agreed. Appointment to post of director of Social Care & Wellbeing.
June	Interviews and appointments for remaining director posts. Revised committee structure and governance arrangements agreed.

Source: Audit Scotland

- improving capacity, accountability and performance.

**16.** The council prepared a Corporate Improvement Plan (CIP) to support the delivery of these priorities. These are seen by the council as medium-term priorities, and it plans to incorporate them into a new corporate plan which is currently under development. Services are developing Service Improvement Plans (SIPs) which will detail service-level activity for each of the priority areas.

**17.** The Best Value audit and the Commission’s findings have led to considerable activity since May 2008 ([Exhibit 2](#)).

**18.** The full impact of these changes has yet to be realised. However, the council has taken a number of significant steps in an organised and prioritised way. The council recognises that it still has a long way to go before it can demonstrate that it has all of the attributes of a Best Value council, but it has taken prompt and focused action in the short term.

**19.** There is a significant amount of improvement activity going on at both the strategic level and operational levels. With such a lot of improvement activity going on, there is a risk that the work is not prioritised and coordinated as effectively as it might be and that resources are spread too thinly across a wide range of activity. The council recognises this

risk, but considers that it needed to build up a high level of momentum to start to address the issues it faced. Once the various 'building blocks' are in place, for example the new management structures, chief officer appointments and governance arrangements, the council plans to review the improvement work to ensure a sustainable pace of change is maintained over the longer term.

### Leadership, capacity and culture

The council has taken action to improve and develop the leadership, capacity and culture of the organisation.

**20.** In its findings, the Accounts Commission noted that 'in some specific areas such as the control of budgets, leadership has not been as effective as it should have been.' The Commission also noted that 'the council now needs to demonstrate a strong and clear commitment to leading the implementation of the necessary changes' and that 'the scale of the challenge facing the council warrants the agreement of an improvement plan which has all-party support.' The Commission went on to recommend that the council should establish 'an all-party leadership board for the specific purpose of taking ownership of its improvement plan.'

### Political leadership

The all-party leadership board has helped to drive forward improvement in the council. It is important that the council maintains a broad consensus to help it implement the changes it has agreed and to support further improvement.

**21.** The council set up an all-party leadership board in June 2008 to lead and oversee the improvement work. The board is made up of the leaders of the four party groups and its responsibilities have included oversight and monitoring of the

improvement plan, engagement with the ESG, and communication with the cabinet secretary.

**22.** Within the leadership board, there has been a broad consensus on the action needed to address the key issues. The consensus which the leadership board achieved between June 2008 and April 2009 has been instrumental in the council making progress on its improvement agenda. Over this period, the council leader and the deputy leader have shown leadership, commitment and resilience and have worked effectively together.

**23.** More recently, however, there have been increasing signs of tension within some party groups. In May 2009, the leadership of the Labour group changed and in June, the Liberal Democrat group decided to replace its group leader, who will become the new leader of the council from August 2009. Given the significant role that the leadership board has had in driving forward improvement, any changes to its composition needs to be managed carefully. It is important that the council maintains a broad consensus to help it implement the changes it has agreed and to support further improvement.

**24.** The council has shown an ability to take difficult decisions in relation to the serious financial situation. In February 2008, the council committed to making savings of £49.7 million in 2008/09. In December 2008, the council reviewed the achievability of the proposed savings and concluded that 75-80 per cent of the savings planned for 2008/09 were likely to be achieved. This position had largely been caused by planned savings within social care not being fully achieved. The council considered that the savings originally proposed were not likely to be achieved without unacceptable risk or the probability of severe service disruption. As a result the council refined its savings target for 2008/09 and incorporated revisions to the 2009/10 budget.

**25.** There was an increasing lack of trust between members and officers in the period leading up to the public hearing. While it will take time for trust to be fully restored, members and officers report that this process is under way and that the improvement work which has been taking place has helped to provide an environment to support this ongoing process.

**26.** Though there is a broad consensus in the leadership board, relations between some members, and between some members and officers, remain problematic. There has been significant media interest over the last 12 months, and there have been a number of 'leaks' within the council. For example, personal details of the candidates for the post of chief executive were leaked, prompting a change to the composition of the recruitment panel.

**27.** The new chief executive and the leadership board are promoting a culture of openness and transparency, but the leaking of information is having a detrimental effect on member/member relations, member/officer relations and on staff morale. Members and officers are having to spend time and energy responding to 'leak led' issues, time which might better be used on key issues in the improvement plan. Members and officers have, at times, felt unable to have open and frank discussions on issues as they are wary about how and where information might be shared in advance of it going through due process. In June 2009, the Continuous Improvement Committee agreed that further training on the code of conduct should be arranged for elected members and that an internal procedure to deal with breaches of the code should be considered as part of a review of standing orders. The chief executive and the council's monitoring officer are currently conducting an investigation into some of the disclosures.

## Managerial leadership

The interim chief executive and the new chief executive have had a positive impact on the council, and senior officers have engaged constructively with the improvement programme.

**28.** Between August 2008 and February 2009, the interim chief executive had a positive impact, bringing considerable experience and an external perspective on the issues facing the council. Working first as interim chief executive between August 2008 and the end of November 2008, and as independent financial adviser from the start of December 2008 to the end of February 2009, he helped to focus the council's attention on key priorities, including the introduction of an interim management structure to clarify responsibilities and accountability and a strategic council-wide focus on core services. Alongside this, he revised the budget process to deliver the 2009/10 budget.

**29.** Since taking up post in December 2008, the new chief executive has invested time and energy in leading improvement in the council. She has spent a lot of time speaking to members, officers, partners and the local business community to establish a common understanding of issues and priorities and foster professional and constructive working relationships. Between December 2008 and May 2009, she attended staff meetings, briefings and workshops involving over 2,200 employees. This investment, and the way she conducts business more generally, is already commanding a high level of respect among members, officers and partners. HMIE also noted the positive impact of the new chief executive in the recent follow-through inspection report on services for children.

**30.** The chief executive is promoting a new 'cultural tone' in the organisation. This focuses on clarity of purpose, accountability, openness,

empowerment, support and challenge. The effect is evident, for example, in Corporate Management Team (CMT) meetings and staff briefing sessions.

**31.** It will take time for the new cultural tone to spread through the organisation. Members and officers are aware of this and are committed to addressing this constructively.

**32.** At present a lot of the work is being driven by the chief executive and expectations of her role are very high. It is therefore important that the completion of the appointments to the director posts is accompanied with a review of roles and responsibilities to ensure that further improvement is sustainable.

**33.** Members of the CMT have engaged constructively with the improvement programme and have supported the interim and new chief executives. They have welcomed the new management structures. The CMT had already come to a view on the need for revised structures before the appointment of the interim chief executive and this helped with a relatively smooth implementation of the interim management arrangements in September 2008.

## Building capacity

The council has recognised the need to build capacity within the organisation and has done this by actively securing external support and by developing its existing capacity.

**34.** The interim chief executive and financial adviser, the new permanent chief executive, and the interim programme director for social care were recruited from outside the council.

**35.** The council has also secured other external help:

- CIPFA – to carry out training for elected members and provide placements to give additional accountancy support to develop

systems and review schemes of delegation and financial regulations.

- Consultants – to lead and support work on bank reconciliations and develop the council's internal audit programme.
- CIPFA/IPF – to support the development of the Asset Management Strategy.
- Independent support and challenge on housing improvements as recommended by the Scottish Housing Regulator.
- City of Edinburgh Council – on homelessness services.
- Renfrewshire Council – for peer review on child protection services.
- West Lothian Council – for peer review of financial management.

**36.** The council has maintained its investment in leadership development for its managers to improve its existing managerial capacity. It makes good use of technology to provide a toolkit in the form of the manager's handbook, a useful resource which reinforces what is expected of staff and managers. The council has allocated 'change managers' to each service to help them identify and deliver budget savings and improvements.

**37.** The Best Value audit and SWIA reports in 2008 identified that elected members needed to provide more effective scrutiny and leadership and have a clearer understanding of their roles and responsibilities. The council has agreed role profiles for members, which highlight a range of competencies including leadership elements. The role profiles are currently being used as the basis for a Training Needs Analysis (TNA) exercise which will result in each member having a Personal Development Plan (PDP). As at June 2009, 18 of the 43 members had

PDPs and the council plans to have PDPs in place for all members by August 2009. Members' training is also being recorded on a quarterly basis and published in line with national recommendations.

**38.** Between late 2008 and early 2009, the council commissioned training for members including:

- CIPFA training on local government finance, governance and scrutiny and the role as member of an audit committee – attendance was between 72 and 86 per cent.
- Protecting Children and 'Getting it right for every child' workshops to clarify members' responsibilities – attendance was 63 per cent and 58 per cent respectively.

### Cultural change

There are early signs that the culture of the council is changing, though it will take time for a new culture to become fully embedded.

**39.** In its findings on the Best Value audit report, the Commission stated 'the challenges facing the council are collectively extremely serious. While the council accepted the accuracy of both reports by the Controller of Audit, we found that there was a lack of a full appreciation of the seriousness of its current circumstances.'

**40.** Interviews with members and officers indicate that there is now a high level of acceptance of the scale and significance of the issues highlighted in the audit and inspection reports and of the need for rapid and sustained improvement.

**41.** In its findings the Commission also stated 'the council frequently refers to a 'culture of non-compliance' as a reason for its difficulties. We do not accept that explanation. It seems to us that there has been a failure to engage with employees in the changes which have taken place or which have been attempted.' We found a broad consensus in the

council that this culture was largely a product of the lack of clarity and accountability associated with the management structures, and in some instances management style, rather than an inherent resistance to change. Everyone that we spoke to expressed optimism that the new arrangements would better support accountability and improvement.

### Organisational structures and governance arrangements

The council has implemented a new management structure to improve clarity and accountability. It has agreed revised political decision-making structures and is implementing new governance arrangements.

**42.** The council accepted that management structures needed to change and that the previous arrangements contributed to a culture where there was a lack of accountability, ownership, responsibility and empowerment. In the previous structure each of the neighbourhood services directorates had operational service delivery responsibility for three main service areas (health and social care, culture and learning, and shelter and environment). There were also three central directorates: strategic leadership, continuous improvement and resources management.

**43.** By September 2008, the council had introduced a range of interim management arrangements including the appointment of an interim programme director for social care. The three neighbourhood services directors took a city-wide lead for environment and infrastructure, learning and housing. The council also realigned support mechanisms from the strategic leadership, continuous improvement and resources management directorates which brought together the operational and strategic work for each of the services. The interim management structures have helped to improve the budget setting and monitoring

processes and clarified the accountability of budget holders.

**44.** In March 2009, the council agreed a revised management structure following a wide-ranging review and consultation by the new chief executive ([Exhibit 3](#)).

**45.** The council decided that recruitment to the director posts would be open to external candidates and external advisers were involved. Given the need to move swiftly on the appointment of the social care and wellbeing post, the council accelerated this recruitment process and, following interviews in May, appointed an external candidate to the post. In June 2009, the council agreed the process for the next phase of management restructuring. The chief executive and directors will bring forward proposals and the council agreed that posts in the new structure would be subject to a competitive recruitment process open to external applicants and supported by external recruitment consultants.

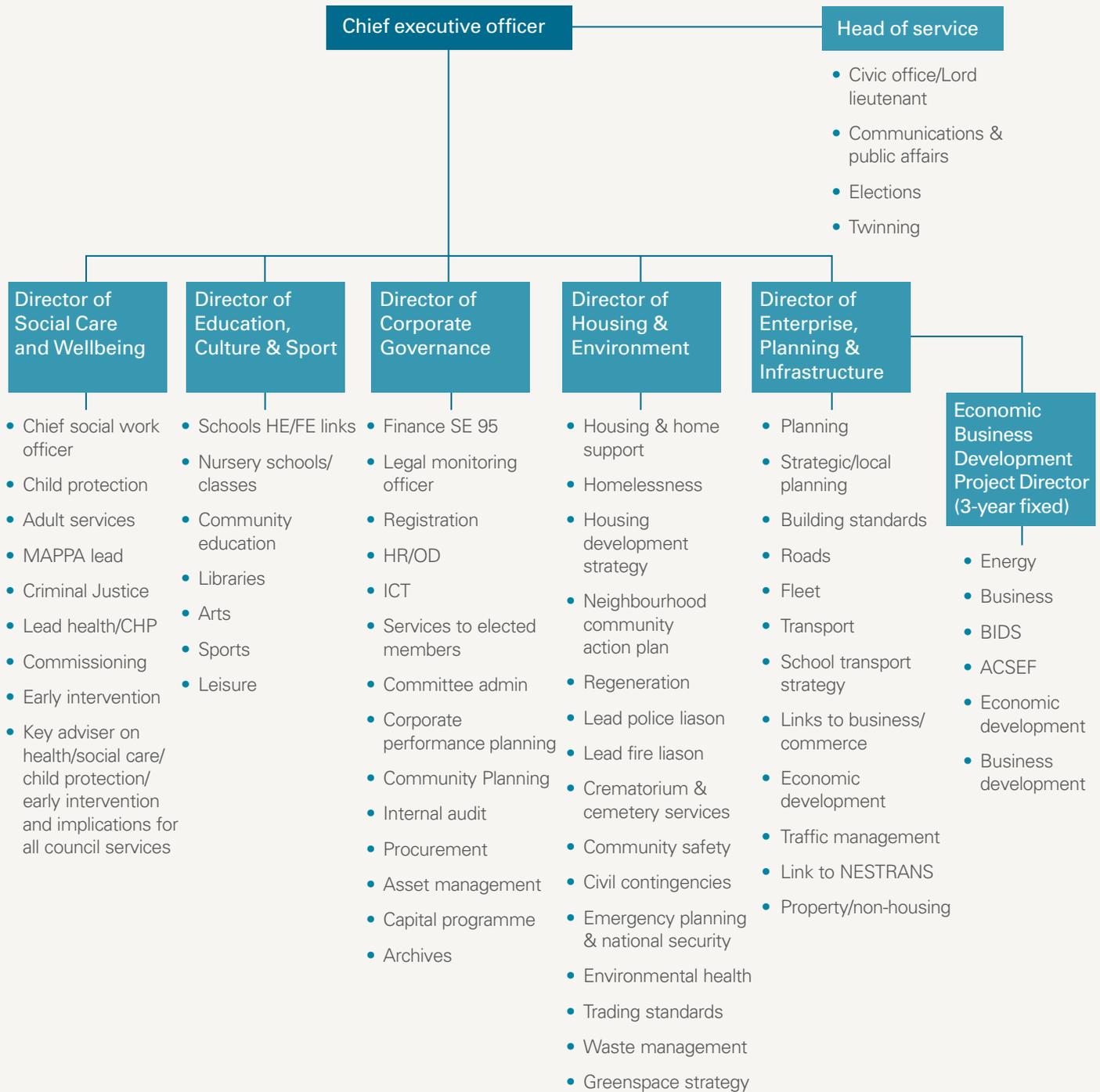
**46.** The interviews for the other director posts took place at the end of June and four of the six appointments have been external candidates.

### Political decision-making structures and governance arrangements

The council has agreed to implement a new political decision-making structure and governance arrangements.

**47.** Members and officers accept that the previous political decision-making structures had contributed to a lack of clarity and accountability which had been a factor in the problems the council faced. However, many expressed a view that there were benefits to the area-based approach, particularly a focus on local issues and local performance reporting. There is a desire to retain these benefits, but under a new structure which has clearer lines of accountability.

**Exhibit 3**  
New management structure



**48.** In June 2009, the council agreed to implement new political decision-making structures (Exhibit 4) which will come into effect in August 2009. The new structures are based around key service areas rather than the area-based model which had been in place before.

**49.** The new structures have the potential to improve clarity of responsibility and accountability and provide a focus on key priorities and city-wide service performance.

**50.** In February 2009, the council agreed to carry out a comprehensive review of governance arrangements. The review is well under way and has involved external support and guidance from CIPFA, SOLACE and the ESG. The chief executive will bring forward reports once the revised management arrangements and decision-making structures are in place to cover revised standing orders, financial regulations, schemes of delegation and codes of conduct for members and officers. The all-party leadership board is overseeing the review.

**51.** The council's committee report format was simplified in October 2008. The Continuous Improvement Committee now monitors the

number of committee reports issued in accordance with the required timescales. An analysis over a six-month period from August 2008 to March 2009, showed that ten per cent of committee papers were classified as late. While there is a renewed focus on this by both elected members and officers, the council recognises that improvement is still required in this area. The length, quality and timeliness of reports still vary considerably. The council is reviewing its training for report writers and plans to re-launch this to coincide with a new electronic committee service process in August 2009.

**Performance management and scrutiny**

The council is making steady progress in implementing a corporate performance management process across all services, but still has work to do to introduce an effective performance culture throughout the organisation.

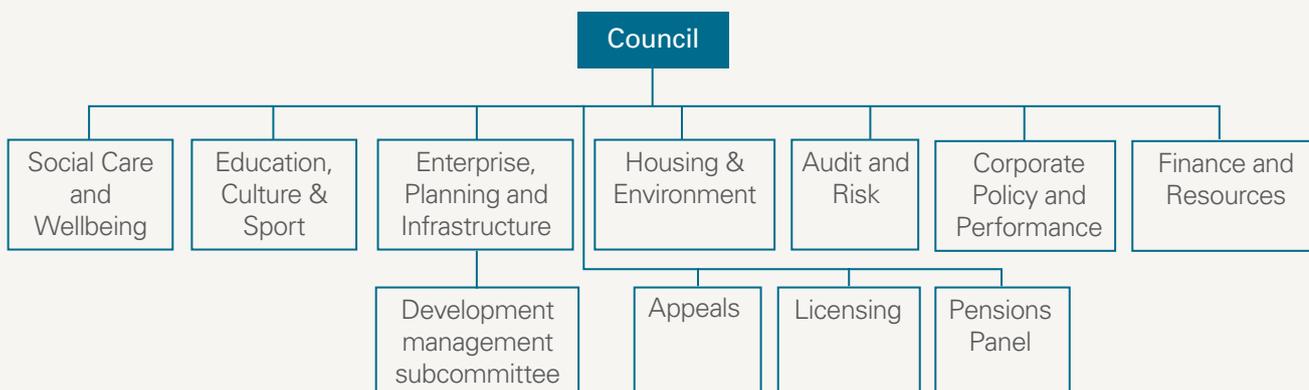
**52.** In the Best Value audit report of May 2008, the Accounts Commission expressed concerns about the governance arrangements within the council, particularly the need for more effective member scrutiny. It also found that there were weaknesses

in the council's arrangements for scrutinising decisions and performance.

**53.** The council is making steady progress in implementing a corporate performance management process across its services. Committees and management teams receive regular reports and the interim management arrangements have provided clearer lines of accountability. The council recognises that performance management is in a transitional stage, pending the implementation of the new management and political decision-making structures.

**54.** The quality of reports to members has improved, but remains variable. Each performance report has a director's overview of progress, a performance indicator scorecard with 'traffic lights', appendices with detailed information for each indicator, progress on key projects and other additional information. Performance reports focus too much on operational activity rather than performance and impact. Many reports are long and detailed and this does not help support effective scrutiny. Despite these shortcomings, members actively scrutinise performance, some in a very forensic way.

**Exhibit 4**  
New political management structure



**55.** Members have recently shown real interest in the developing performance management arrangements in social care and an enthusiasm for a single page summary scorecard highlighting key performance indicators.

**56.** In 2008, the council introduced 'Covalent', an electronic performance management information system. The system currently includes details of the CIP, budget savings and the Service Scorecards which are currently reported to committee. The CMT has agreed a strategic approach for implementing the system at all levels within the council.

**57.** The council still has work to do to introduce an effective and meaningful performance culture throughout the organisation. Its staff appraisal system is not yet fully implemented in all services and this could be used to reinforce a positive performance culture and engage front-line staff more effectively.

**Strategic and operational planning**

The council has made good progress in reviewing its strategic planning framework and is in the early stages of implementing a revised planning process.

**58.** Currently, the council's planning arrangements focus on ten levels of activities, some of which have been superseded or which are in the process of being reviewed or integrated with other plans. Key aspects include the incorporation of the North East of Scotland Joint Public Sector Group priorities of economy, environment, changing demographics, community safety and tackling inequalities, the Single Outcome Agreement (SOA) and the community plan.

**59.** The council submitted its draft SOA to the Scottish Government for consideration in February 2009 and agreed it in May. The SOA covers the services provided by Aberdeen City's Community Planning partners; Aberdeen City Council; Grampian Fire & Rescue Service; Grampian Police; NHS Grampian; Scottish Enterprise Grampian and NESTRANS.

**60.** The council does not currently have a corporate plan as it is operating under the CIP. It plans to incorporate key elements of the CIP into a corporate plan and has put in place a process and timetable for its development.

**61.** The CIP is a short to medium-term plan that outlines the council's six main priorities for the period to March

2010. The council has established clear links between the CIP and its service planning approach and service plans and update reports show service level commitments to the SOA, current pressure points and how each service is responding to inspections and other influencing factors.

**62.** The council is introducing a more consistent approach to team planning and a senior managers' conference in September 2008 focused on the need for team plans across the organisation. Corporate guidance has been issued, including a template for the plans and specific advice on budgets and performance scorecards.

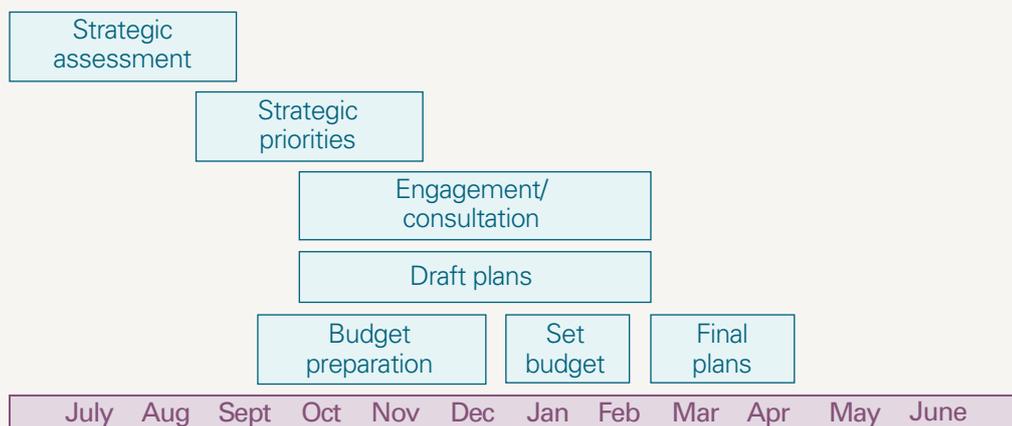
**63.** In preparing the 2009/10 budget the council improved the budget setting and budget monitoring process. It is building on this and CMT has proposed a planning cycle ([Exhibit 5](#)) that should allow for improved integration between the planning and budget processes.

**64.** Since the Best Value audit report was published, the council has also adopted the Aberdeen Local Plan (June 2008) and the finalised Aberdeen City and Aberdeenshire Structure Plan (February 2009).

**65.** The council aims to have in place during 2009 the aligned planning framework, including a corporate

**Exhibit 5**

Proposed planning cycle



Source: Aberdeen City Council

plan, which reflects community and council priorities as well as a new organisational structure.

### Financial position

The council's financial position remains challenging and is exacerbated by the current financial climate. The unaudited financial statements for 2008/09 show an increase in the general fund balance of £6.09 million, compared to an original budgeted position of no movement. This was achieved through significant savings being made during the year and one-off support totalling £17.18 million (£10.65 million from the capital fund and borrowing consent from the Scottish Government of £6.54 million). The council recognises that this approach is not sustainable and has improved the budget setting and monitoring processes during 2008/09, although further work is needed to improve budget monitoring.

**66.** In its findings on the Best Value audit report, the Accounts Commission stated: 'We endorse the view of the council's external auditor that the council is in a precarious financial position. Over the past three years, the council expenditure has been significantly in excess of its budget, giving rise to concern over diminishing reserves and leading to the need for a substantial package of savings in the current financial year. Given the previous record of failure to meet savings targets, we cannot have confidence that these savings will be delivered and we accordingly make recommendations regarding the close and frequent monitoring of the position.'

**67.** In the three years to 31 March 2008, the council used £69.4 million from reserves and funds to support its expenditure, including £25.4 million of overspends against the final budgets (£18.1 million revenue and £7.3 million capital). While this was an allowable use of reserves and

funds, it was not sustainable in the long term. This was recognised by the council in the setting of the 2008/09 budget in February 2008.

**68.** During 2008/09, the council made a number of changes to the budget monitoring process. A Budget Monitoring Board (BMB) was set up in March 2008 to monitor the general fund revenue budget. It receives regular monitoring reports detailing the achievement of budgeted savings and the overall general fund projected outturn. Directors now have input to these reports and officers are held to account more effectively.

**69.** The interim chief executive reviewed the council's arrangements for setting and monitoring its budget. The interim management arrangements introduced in September 2008 created clearer lines of accountability and responsibility for budgets. This had a positive impact on budget monitoring for the remainder of 2008/09 and the budget setting process for 2009/10.

**70.** Both the original 2008/09 budget of £417.24 million and the final budget of £420.30 million included a range of savings across all services, amounting to £49.7 million. In March 2009, a monitoring report to the BMB projected that £31 million of these savings would be achieved. The unaudited financial statements show a final position that is £11.08 million worse than the original budget, but better than was predicted in the final projections by £5.88 million.

**71.** The council funded the budget gap and increase in the general fund balance through the allowable use of £10.65 million of the capital fund for capital expenditure and debt repayment, and through borrowing consent by the Scottish Government for £6.53 million to finance redundancy and equal pay costs. The Scottish Government gave the council consent to borrow for redundancy and equal pay costs of £14.82 million over two years (2008/09 and 2009/10).

**72.** The original budget anticipated no use of other funds and the final budget anticipated £2.17 million use of the capital fund. The council had consistently reported a projected overspend since the first 2008/09 monitoring report to the BMB in September 2008. It recognised that the original budgeted savings in social work services were unrealistic and the council agreed then that capital funds of £7.6 million would be used on a non-recurring basis to support this overspend. The unaudited financial statements show social work expenditure reduced by £1 million compared to earlier estimates.

**73.** The council reports that the positive movement between the final projection and the position reported in the unaudited financial statements was due to 'reduced costs associated with the delivery of social work services, a significant reduction in the estimated costs of repairs and maintenance costs, further savings achieved against Capital Financing Costs, additional income derived from interest on revenue balances, lower costs in relation to corporate investment and modernisation funds.' The movement between the final unaudited outturn and the most recent projections demonstrates that further work is required to improve the accuracy of the financial projections made during the year.

**74.** The council recognises that its approach in 2008/09 is not sustainable. The covering report on the financial statements notes that the council had to draw on one-off resources in order to maintain committed expenditure levels and goes on to stress that the council 'cannot relax in its approach to tackling the financial position'.

**75.** The closing uncommitted General Fund balance for 2008/09 is £7.25 million, better than projected, but remains below the council's minimum target balance of £10.97 million.

**76.** The council uses Covalent as a reporting tool for monitoring budget savings and the quality and timeliness of information provided to members and budget holders has improved. However, there are still some areas where further work is required to improve the clarity of reports. There is now a closer working relationship between the services and the central finance team which is improving financial monitoring, and the council is also developing information in standard reporting to include profiling, trend analysis and head count information.

#### The 2009/10 budget

**77.** The 2009/10 budget was set in February 2009, with a budgeted net expenditure of £438.76 million and which includes budget savings of £26.63 million. These savings are being actively monitored by the CMT and exception reports are presented to the BMB to highlight any potential high-risk areas.

**78.** The council implemented an improved process for the 2009/10 budget. The process started in September 2008, much earlier than in previous years. Officers were asked to put forward a range of budget savings proposals, and by being involved at this early stage there was a greater understanding and ownership of the budgets and savings by both members and officers. The council engaged in extensive consultation to provide all groups who have a significant constitutional, service or financial relationship with the council with an explanation of what the council was planning to do.

**79.** By bringing the timeline forward, a large part of the budget was agreed at the council meeting in December 2008. This provided services with more lead-in time to implement the changes required before the new financial year. The council has drawn up implementation plans for each approved budget saving, assessing risks relating to deliverability and impact of the proposals. For savings in

excess of £300,000, key milestones have been set to define the steps required to achieve savings against specific target dates. This has created greater accountability and responsibility for budget savings.

**80.** In January 2009, the Accounts Commission considered a statutory report by the Controller of Audit about the qualification of the council's 2007/08 accounts. The qualification was made on the basis of shortcomings in the arrangements for bank reconciliations. The council brought in additional capacity to address the backlog of reconciliations, but did not achieve the planned deadline of 30 April 2009 for completing this work. The council has reported that the work is now complete and that a fully reconciled bank account is included in the 2008/09 financial statements, which will be subject to audit.

**81.** In May 2009, the council agreed a medium-term financial plan for the period 2009/10 to 2012/13. The plan identifies broad strategies for addressing the projected funding gap over the next four years and does not at this stage identify relative spending priorities. It does, however, recognise that the council needs to develop strategies for reducing budgeted expenditure through reductions in staffing costs, establishing efficiency targets across all services and identifying opportunities for shared services. The medium-term financial plan is still at an early stage, but represents a positive move in the right direction.

**82.** The downturn in the global economy has increased financial pressures through reduced capital receipts from the depressed property market, higher demand for services as unemployment rises and reduced income from services which charge. The council also faces other financial pressures including; salary inflation and wage costs, increasing energy costs and rising pension and national insurance costs.

#### Assets and property transactions

The council has introduced more rigorous arrangements to deal with property transactions and has agreed a significantly reduced capital programme for 2009/10–2012/13.

**83.** Given the financial challenges facing the council, it has recognised that the affordability of its non-housing capital programme presented a significant risk. It already had a large programme as a result of decisions made in recent years, and was dependent on new borrowing unless large amounts of capital receipts could be generated. This could lead to substantial rises in the council's debt and associated revenue costs. The council also recognises that, given the current wider economic uncertainties, the assumption that capital receipts would be available to support agreed schemes may no longer be valid.

**84.** In June 2009, the council agreed a revised non-housing capital programme for 2009/10–2012/13. The four-year programme was reviewed in the early months of 2009 and reduced from a draft programme of £398.36 million in February 2009 to an agreed programme of £276.2 million in June 2009. All of the current projects have been through an evaluation process, which included an assessment of the programme's affordability. The programme is largely shaped by two strategically important projects, for corporate office accommodation and the Aberdeen Western Peripheral Route and associated infrastructure projects.

**85.** The council also agreed a corporate property asset management plan in June 2009, which identifies investment planning as a priority area and the need to adopt formally a capital project prioritisation process.

**86.** The council has made progress on some significant capital projects. For example, in May 2009 Heathryburn Primary School was opened, the first

of the new schools to be completed as part of the £120 million '3Rs' project.

**87.** Following the publication of the Controller of Audit report in April 2008, the council made a number of changes to the way property transactions were managed. The report highlighted serious and wide-ranging deficiencies in the council's approach to property disposals over the period 2001 to 2006 and serious weaknesses in governance and accountability.

**88.** In August 2007, the council implemented detailed written guidance and procedures for staff involved in dealing with property transactions. The council also implemented revised protocols for disposals and acquisitions of property in November 2008. Significant transactions must be signed off at various stages of the process by the City Chamberlain, as the chief financial officer, and the City Solicitor as monitoring officer. The council has defined 'significant' as any transaction which is not currently within the delegated authority of the head of resources development and delivery and which has to be reported to committee. This more formal process should strengthen understanding of the legal conditions that apply in each case.

**89.** There has been an improvement in the documentation of transactions and decision-making. As a result of the downturn in the property market, the council has not progressed many transactions since the introduction of the new protocol. The council's external auditors reviewed a sample of ten property transactions which have progressed during the period August 2007 to June 2009. Five of these were required to follow the new protocol. The others were either concluded prior to the introduction of the protocol, or had not reached the stage which required the protocol to be followed. The review found

that, in general, the protocol was being followed; however, there were instances where full compliance was not achieved due to time pressures in meeting committee deadlines, resulting in some stages of the process being combined. The council plans to review the protocol, now that it has been in place for seven months, to identify if there is scope to refine the process, and these issues should be addressed as part of the review. The council is running training sessions for staff involved in all property transactions.

**90.** The process for presenting property transaction information to members has been reviewed and reports must now be signed off by the head of resources development and delivery, in consultation with the appropriate director. The external auditors have reviewed recent reports to committee and noted an improvement in the quality of information provided to members.

**91.** Grampian Police carried out an investigation into some property transactions and submitted a report to the Procurator Fiscal, who has decided that no criminal proceedings will take place. Following clarification of the decision of the Procurator Fiscal, the council has started its own internal disciplinary procedures.

**92.** The council and the external audit team have also been looking into some property transactions relating to the sale of 'tied houses'. External audit work on these transactions is continuing as part of a separate exercise.

## Workforce planning, communications and morale

The council is making progress in establishing a strategic approach to workforce planning. It is developing an inclusive approach to communicating with and involving staff, and morale is showing some signs of improvement.

**93.** In its findings on the Best Value audit report, the Commission stated 'there appears to be a fundamental morale problem among many of the employees of the council. The council frequently refers to a 'culture of non-compliance' as a reason for its difficulties. We do not accept that explanation. It seems to us that there has been a failure to engage with employees in the changes which have taken place or which have been attempted.'

**94.** The council is developing a strategic approach to workforce management. It introduced 'People First', a corporate workforce strategy, in May 2008. This set out the priorities for people management for the next five years, along with nine key work areas to support this.

**95.** The council's CIP focuses on workforce priorities for managing people which echo many of the key work areas of the 'People First' strategy.

**96.** In addition, the Resources Management Committee agreed the 'Development Strategy – Building for Change 2009-13' in March 2009, which provides a strategic framework for workforce development in all services. The strategy is linked to the council's training policy and outlines how development and training will be supported.

**97.** The interim management arrangements have helped the council to make progress in implementing the strategy and in improving communications. The council is now looking at more targeted, service specific workforce planning, and

plans to accelerate this once the new management structures are in place. Work is progressing to link workforce planning to service planning and it is anticipated that this will be completed by the autumn 2009.

**98.** In workshops, staff were generally positive about the opportunities for development and training available to them, however, they noted that development opportunities could be provided more consistently across council services and offices.

**99.** As of 1 May 2009, the council implemented the new contracts for staff affected by Equal Pay and Modernisation. Ninety-seven per cent of staff voluntarily accepted the new contracts and an appeals process has been put in place.

**100.** The council has a corporate appraisal scheme in place. Where the scheme is fully implemented, staff found it helpful in supporting their development needs. However, the application of the appraisal process is variable and not yet applied consistently across all services. In the 12 months to January 2009 approximately 30 per cent of the workforce had their appraisals recorded on the HR system and this represents a significant drop from 2007 levels.

**101.** Communication about changes taking place within the council has improved. Between May and December 2008, there were three employee briefings, one improvement plan update and eight improvement process updates. This was a good approach to keeping staff informed on the events relating to the Accounts Commission hearing and the impact of budget savings on staff.

**102.** The council uses a wide range of methods to communicate with staff, including email, phone, letter, personal visits, 'the zone' intranet site and the staff newsletter. The new chief executive has spoken to over 2,200 employees at face-to-face briefings

and has requested feedback from staff on their top three priorities for 2009/10, three things that need to change, three concerns or challenges and three things that are working well and require no change. The feedback was used to inform decisions about the new management structures.

**103.** Staff indicated that corporate communication has improved and thought that it was clear and comprehensive. However, they also indicated that there is room for improvement in service-specific communication which might be better if it mirrored the corporate approach.

**104.** The council continues to use manager conferences to involve senior managers in the improvement agenda, as well as updating them on key pieces of legislation that may impact on their work. Senior manager conferences have been extended and now include third-tier managers in addition to directors and heads of service.

**105.** SWIA undertook a survey of social work employees during its on-site work and its findings will be reported as part of the follow-up report published in July 2009.

**106.** The council is making efforts to manage external communications more proactively. The intense scrutiny of the local media has, however, had a negative impact on staff morale. The council has been promoting positive news stories and there have recently been high-profile articles from senior staff outlining the changes taking place within the council.

**107.** The council has not carried out a comprehensive staff survey since 2005 but proposes to conduct an employee opinion survey in September 2009 and every two years thereafter.

**108.** Our discussions with staff and Trade Union representatives indicated that the changes taking place in the council, including the

appointment of the new chief executive, the interim management arrangements, the implementation of the conditions relating to equal pay and modernisation and improved communications, had led to an improvement in staff morale. The staff survey planned for the autumn should provide a robust assessment of progress in this area.

### Service performance

In a follow-up inspection in 2009, HMIE found some improvements in services to protect children and young people and reported positively on the new leadership. Other follow-up inspection reports will be published by SWIA in summer 2009. Statutory Performance Indicators (SPIs) are not yet available for the period since the last Best Value audit report.

**109.** Audited SPIs are not yet available for the period covered by this progress report so the follow-up audit had only limited comparative service performance information. Service performance will be considered as part of a shared risk assessment which will be carried out by Audit Scotland and other inspection agencies early in 2010, prior to adoption of a joint scrutiny plan for Aberdeen for 2010/11–2013/14.

**110.** During 2008 and 2009, the council was the subject of critical inspection reports. SWIA published a performance inspection report in June 2008 and HMIE published a report on child protection in November 2008. Both of these inspections required follow-up inspection work in 2009. Audit Scotland, SWIA and HMIE developed an integrated approach for the audit and inspection work, including a shared evidence base to inform judgements.

**111.** SWIA also led a multi-agency follow-up inspection of substance misuse services in Grampian. This involved three local authorities, including Aberdeen, and NHS

Grampian. The fieldwork for the substance misuse inspection took place alongside other planned inspection activity in Aberdeen.

**112.** In June 2009, HMIE published a joint interim follow-through inspection report on services to protect children and young people. The report found that chief officers of the agencies involved had responded positively to the main points for action in the original inspection report.

**113.** The report also noted that the council had 'embarked on a major restructuring of services, including the social work and education services, to provide the foundations on which to build and make sustainable improvements' but that 'it was too early to evaluate the impact of these changes on practice and outcomes for vulnerable children.'

**114.** HMIE highlighted 'significant improvements in the leadership and direction in Aberdeen City Council, in particular by the new chief executive of the council and the interim director of social work services.' The report goes on to note that 'this had been very helpful in establishing child protection as a corporate responsibility of the council and improving communication and the involvement and support of staff' and that 'management and staff responsibilities had been clarified. Social work staff were generally positive and encouraged by these developments and their professional confidence was increasing through working in a more open and supportive environment. Joint working within and across services had improved.'

**115.** In conclusion, the report states that 'managers and staff across services, but particularly in the social work service, have been successful in laying effective foundations for improvement. They all recognised that more had to be done to improve the effectiveness of child protection services and to meet the needs of vulnerable children and families.'

**116.** The full report is available on the HMIE website, [www.hmie.gov.uk](http://www.hmie.gov.uk)

**117.** The SWIA performance inspection follow-up report and the Grampian substance misuse follow-up report will be available on [www.swia.gov.uk](http://www.swia.gov.uk) in July and August 2009 respectively.

**118.** In November 2008, the Care Commission published reports on the council's fostering and adoption services. The reports graded the quality of care and support, the quality of staffing and the quality of management and leadership as 'good' for both services. The reports are available on the Care Commission website [www.carecommission.com](http://www.carecommission.com)