

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	23 rd August 2017
REPORT TITLE	Council Target Operating Model
REPORT NUMBER	OCE/17/015
LEAD OFFICER	Chief Executive
REPORT AUTHOR	Angela Scott

1. PURPOSE OF REPORT

This report proposes a review of the way in which Council Services are managed and delivered, being the “Council’s Operating Structure” and makes recommendations for the implementation of a new system of management and delivery known as the “Target Operating Model”.

2. RECOMMENDATIONS

The following recommendations are made to the Council:–

(a) Target Operating Model

- i. Agree the realignment of the key functions of the Council for the proposed Target Operating Model as detailed in section 5 of Appendix A, namely
 - Customer
 - Commissioning
 - Operations
 - Resource Management
- ii. Note that a programme of engagement with stakeholders, both within and outwith the Council, including trades unions, ALEOs and other partners will be undertaken as the detail of the Target Operating Model is developed.

(b) Organisational Structure

- i. Agree the First Tier structure for the Target Operating Model as proposed in section 5 of Appendix A, namely
 - Director of Customer
 - Director of Commissioning
 - Chief Operating Officer
 - Director of Resources
- ii. Agree the proposed job profile and salary for each Director post as proposed in Appendix B;
- iii. Noting that responsibilities have only been identified under each proposed Director post at this stage, instruct the Chief Executive to develop further the senior management structure and report to Council at its meeting in December 2017 with recommendations for proposed portfolios and posts as appropriate; and
- iv. Agree the revised recruitment and selection process outlined in paragraph 5.5 below for the appointment to the Director posts, suspending Standing Order 47 (2014) as required, with a view to the posts being filled on a permanent basis by 1st April 2018.

(c) Transformation Portfolio

- i. Agree the Transformation Portfolio, set out in Appendix C to address the three objectives of delivering up to £125 million of benefits realisation (or savings) over five years (2018/19 to 2022/23); delivering the Council's digital strategy and delivering the Council's Target Operating Model by 2020/21;
- ii. Assuming agreement of (c) i. above, agree the establishment of the Strategic Transformation Committee with the proposed Terms of Reference and membership detailed in Appendix D and delegate authority to that committee in terms of the same;
- iii. So as to facilitate the recommendation at (c) ii. provide the Head of Legal and Democratic Services with delegated authority to update the Committee Orders of Reference, as he deems this necessary, to provide for the establishment of the Strategic Transformation Committee and to set a timetable of monthly meetings for the Strategic Transformation Committee;

- iv. Agree the establishment of a Transformation Fund through the release of £15m from the Council's reserves as outlined in paragraph 6.2 below and that its use be reported to Finance, Policy and Resources Committee as part of the Council's financial statements each financial quarter; and
- v. Agree that the Council's reserves be restored as part of the future medium term financial strategy, as stated in paragraph 6.2 below, within a 5 year period.

(d) Supporting Governance Framework

- i. Note the proposals for a supporting governance structure to underpin the Target Operating Model as outlined in section 6 of Appendix A;
- ii. Instruct the Head of Legal and Democratic Services to report to the Council by its meeting in March 2018 seeking the necessary approvals for a governance framework to support the implementation of the Target Operating Model; this will include a Scheme of Governance setting out the Terms of Reference for the Council, its revised committees and sub-committees and appropriate delegations to officers within the revised structure and a revised Council diary for 2018/19; and
- iii. Agree the distributive leadership principles set out in the Urban Governance discussion document within Appendix A and instruct the Chief Executive, the Council Leader and the Lord Provost, as the Council's senior executive, political and civic leaders to consult and engage with relevant stakeholders and partners, including Aberdeenshire Council, the UK Government and the Scottish Government with a view to the Chief Executive reporting back to the Council by its meeting in March 2018 with proposals in relation to:
 - co-ordinating Council civic, political and executive leadership structures;
 - establishing revised regional structures for discussion and interaction;
 - developing partnership models with both governments and other stakeholders offering interaction at executive team level within the Council.

3. BACKGROUND

3.1 This report sets out a case for an organisational change resulting from the Council's operating environment. The particular drivers for change include:-

- ongoing and increasing fiscal restraints;
- evolving customer needs and expectations;
- the need to have increasingly engaged and flexible staff;
- legislative and policy changes; and
- opportunities afforded through modern technologies.

3.2 Giving consideration to these drivers, and founded upon the strategic ambition for both the City and the Council as expressed through the Local Outcome Improvement Plan, the report identifies a new Target Operating Model which changes the Council's:-

- o Customer Service
- o Organisational Design
- o Use of Technology
- o Processes
- o Workforce
- o Governance/Accountability
- o Relationship with partners and alliances

3.3 The report proposes design principles for each area; describes a "blueprint" for the future of Aberdeen City Council; and makes recommendations which will allow the implementation of the new Target Operating Model.

3.4 Recognising the significant change which the new Target Operating Model will bring to stakeholders both within and outwith the Council, it is proposed that a co-ordinated programme of engagement be undertaken as the detail of the Target Operating Model is developed.

4. TARGET OPERATING MODEL

4.1 It is proposed that the blueprint for the organisational structure design within the Council's Target Operating Model will see a shift away from directorates based on services to a more 'functional' model in which our capability is organised as described below:

4.2 In this new Target Operating Model:

- i. A single **Customer** function will ensure a consistent and integrated customer centric approach to services;

- ii. A **Commissioning** function will replace the existing dispersed strategic planning arrangements and hold Operations (as described below) to account for delivery against targeted outcomes;
- iii. An **Operations** function will cover all delivery including in-house; Aberdeen City Council Group; community provision; and external organisations, against clear specifications which define how Operations support the Council’s priority outcomes;
- iv. A **Resource Management** function will deliver all “corporate” services including finance, people, assets, capital and management of enabling technology.

5. DIRECTORATE STRUCTURE

5.1 The proposed Directorate structure for the Target Operating Model comprises:

- Director of Customer
- Director of Commissioning
- Chief Operating Officer
- Director of Resources

5.2 Proposed job profiles and salary levels for the posts are set out in Appendix B.

5.3 In addition to the above, the post of Chief Officer, Health & Social Care remains unchanged within the proposed structure.

5.4 Cost of Proposed Directorate Structure

Based on the current salary bill for the Council’s First Tier structure including Directors, the Office of Chief Executive and relevant business support, the Council currently has a budget of £1.202 million for a full financial year (excluding the Health and Social Care Partnership).

Once the new Target Operating Model is in place (being the 4 Directors plus relevant business support) the total cost for a full financial year will be £0.921 million (excluding the Health and Social Care Partnership). This will result in a recurring saving of £281,000 per annum.

	(£,000pa) Existing Structure	(£,000pa) Proposed Structure	(£,000pa) Proposed Saving
Tier 1 Annual Costs	1,202	921	281

The above costs are inclusive of employer superannuation and National Insurance costs.

5.5 Recruitment and Selection

The success of the new organisational structure and in turn the whole Target Operating Model, rests on the appointment of the right people to the new Director posts. It is very unusual to effectively be appointing a new Corporate Management Team and in light of the significance of these appointments, it is vital that the right process is used. Although there has been some discussion about Chief Officer recruitment and selection within the Governance Reference Group, no conclusions have as yet been reached.

There is a need to recruit to these posts quickly and successfully at the first attempt in order to remove the current dependency on interim resource and to ensure traction on the Transformation Portfolio which is critical to enable the Council to set and deliver a balanced budget for 2018/19. It is therefore proposed that the undernoted process is followed for the recruitment of the new directors. Meanwhile discussions will continue about the process for Chief Officer recruitment which will be required once Tier 2 proposals are finalised.

The recruitment process to be adopted needs to be fit not only for testing individual candidates for each of the Director posts but also needs to be able to test preferred candidates together as a team. The existing process of an Assessment Centre run by the Chief Executive and an Appointments Panel of members will not be suitable for the recruitment of a new Corporate Management Team. It is proposed to integrate the involvement of the elected members into the Assessment Centre.

The Assessment Centre will comprise a number of sessions:

- a session with the Group Leaders;
- behaviourally-based scenarios of complex challenges and decision making which are all interlinked through the Target Operating Model dependencies, using peer group and potential direct reports; these will highlight different leadership styles that can be selected to offer the greatest likelihood of success within the Target Operating Model;
- the Assessment Centre process proposed above will in addition have much more involvement of our recruitment partner and we will continue to involve trade unions, ALEOs and our partners;
- for the Director roles, there could also be benefit in assessing candidates in mixed groups containing applicants for each post

at any one time; this would focus directly on the team element and would allow assessors to view candidates “in role” alongside their psychometric profile;

- a secondary assessment stage for Directors where the four final preferred candidates are involved together and observed; this could have the focus of candidates being asked to describe how they would deliver as a team in projected future years; and
- the gradings collated from the above process would identify the preferred individual candidate with the final decision on appointment being made by the Chief Executive based on her assessment of team fit.

The above arrangements will require members to agree a suspension of Standing Order 47 in the Standing Orders (2014) (which remain in force until further review is completed as part of the Governance Programme) as Standing Order 47 requires appointments to be made by an Appointment Panel of elected members which would no longer be required.

The Assessment Centre process proposed above will in addition have much more involvement of our recruitment partner and we will continue to involve trade unions, ALEOs and our partners.

To facilitate the recruitment, it is proposed to call off a national procurement framework for recruitment services at a cost of up to £80,000. The costs will be met from existing budgets.

- 5.6 Further development of the senior management structure, beyond the specific posts identified within this report, will continue and it is intended to report to Council at its meeting in December 2017 with recommendations for proposed portfolios and posts as appropriate. The Target Operating Model includes the functions of “Governance” and “Business Intelligence” and these will be specifically addressed within the Tier 2 report.

6. **TRANSFORMATION PORTFOLIO**

- 6.1 Set out at Appendix C is a proposed Transformation Portfolio detailing a number of workstreams which, together, address the three objectives of delivering up to £125 million of benefits realisation (or savings) over five years (2018/19 to 2022/23); delivering the Council’s digital strategy and delivering the Council’s Target Operating Model by 2020/21.

6.2 Transformation Fund

In order to deliver significant savings the Council will clearly have to invest resources (both staff and monetary). So as to achieve this, existing reserves will be utilised on the provision that any investment is subsequently “refunded” as part of the Transformation Portfolio.

This investment will be broken down into phases and financial years but an initial sum (to cover Phase 1 and 2 of the Transformation Portfolio and financial years 2017/18 – 2019/20) of £15 million will be set aside.

This funding will be met from the current ear-marked sum for Digital Strategy, the Risk Fund and finally the Investment Fund. A breakdown of the indicative use of these resources in driving forward the Transformation Portfolio is shown at Appendix E and the current 5 year projected medium term financial plan allows for these funds to be restored through the annual budget cycle.

This is demonstrated in section 9.1 of this report where it can be seen that during 2018/19 and 2019/20 these funds will be drawn down. In reality some of these resources will be drawn down in 2017/18 but for modelling purposes are as set out in section 9.1. The fund will be immediately available subject to the Council agreeing.

Use of the Transformation Fund will be delegated to the Strategic Transformation Committee and will support a number of streams of work set out in Appendix C:

- Digital Technology;
- Digital Delivery Partner;
- Digital Maintenance Partner;
- Transformation Team; and
- Included within the above is Voluntary Severance/Early Retirement Requests.

It should be noted that since the Council offered staff the opportunity for Voluntary Severance/Early Retirement earlier this year approximately 150 staff accepted the offer. Since then more staff have requested to take up the offer (approximately 20). It is anticipated that this trend will continue over the coming months and the take up will continue to increase.

To ensure clear transparency on the utilisation of this Transformation Fund the Head of Finance will ensure that included within the quarterly financial statements is a new statement that will clearly show the authorisation of the release of funds along with the benefits realisation statement to demonstrate that future year cost reductions will be achieved.

This will further be reported through the Council's annual budget cycle and again will be pivotal in demonstrating how the Council achieves its statutory requirement to set a balanced budget for the following financial year. The ultimate aim is to have a balanced budget for at least 3 years into the future.

The demonstration of this level of financial planning will be critical in demonstrating the Council's ability to confirm to Moody's Investments good strong governance within the organisation and also a continued strong financial planning system that aims to continue to improve the strength of the Council's Balance Sheet and liquidity.

7. STRATEGIC DIGITAL PARTNER

- 7.1 Set out in section 5 of Appendix A is a proposal for the Council to source and engage a Strategic Digital Partner with a view to the Council accessing through this means relevant senior, strategic advisory support; digital consultancy support; and digital technical support.

8. SUPPORTING GOVERNANCE FRAMEWORK

- 8.1 In light of the proposed adoption by the Council of the Target Operating Model and the introduction of the revised organisational structure, a refreshed supporting governance framework is also brought forward in Appendix A, comprising an indicative structure featuring three "regulatory" and 6 "institutional" committees.
- 8.2 Officers will develop proposals for the Terms of Reference for the new committees while at the same time exploring options to include mechanisms within the new framework to ensure that the Council's decision-making is more open, engaged and responsive as envisaged by both the Community Empowerment Act 2016 and early conclusions from the Planning Review.
- 8.3 Officers will bring forward recommendations to Council in relation to a revised Institutional Governance Structure, revised Delegations to Officers, Procurement Regulations and Financial Regulations and a revised Council Diary for 2018/19.
- 8.4 In addition to proposing revised structures for the internal governance of the Council, Appendix A also includes a discussion document introducing a distributive leadership model to underpin a new approach to urban governance in the City. The document sets out a means by which enhanced place leadership for the City can be delivered through the Target Operating Model.

8.5 On the basis of the principles set out, three key areas are proposed for development:

- co-ordinating structures across the three strands of civic, political and executive leadership of the Council;
- revised regional co-ordinating structures for discussion and interaction in relation to actions to be taken to address the key challenges faced by the City and region
- opportunities for representatives from key partners (government, academia and business) to play an active role alongside the Council's executive team in addressing the City's challenges and maximising its opportunities.

8.6 As stated in the discussion document the key next step in establishing this distributive leadership model will be the inclusion of relevant stakeholders in the development of the concept and the move to its implementation. Should the direction of travel be agreed, discussion on the proposals will take place with colleagues at Aberdeenshire Council, the UK Government and the Scottish Government as well as with representatives of other partners and stakeholders ahead of proposals being brought back to Council for approval.

9. FINANCIAL IMPLICATIONS

9.1 Organisational Change

The table below shows the scale of savings the Council must deliver.

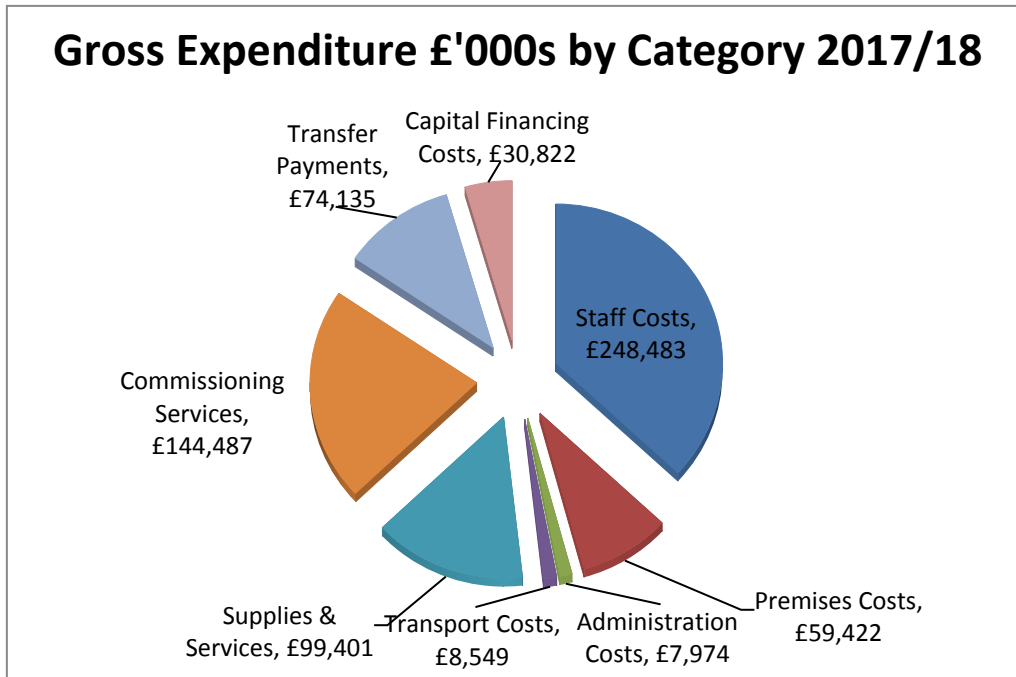
	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Gross Expenditure	683,653	699,324	714,513	728,595	741,741
Gross Income	(226,754)	(227,321)	(227,887)	(228,454)	(229,020)
External Funding	(421,459)	(411,899)	(405,721)	(402,622)	(402,400)
Net (Surplus)/Deficit	35,440	60,104	80,905	97,519	110,321
Transformation Investment	7,000	8,000			15,000
Use of Reserves	(7,000)	(8,000)			
Potential (Surplus) Deficit	35,440	60,104	80,905	97,519	125,321

The above table provides the 2017/18 Strategic Plan updated to reflect known movements and also introduces the 2022/23 financial year.

A number of assumptions have been used to derive the above scenario but key assumptions relate to reduced government funding as well as

meeting contractual uplifts including assumptions of a 2% pay award each year.

Looking at the 2017/18 data by category of spend, it can be seen that nearly 40% of spend is on staff and almost 11% on premises costs as shown in the pie chart below:



- 9.2 What the above data shows is that with approximately 50% of spend on either staff or buildings, continuing to deliver services the way they have been traditionally, is not sustainable. The Council must fundamentally address either **HOW** it delivers services going forward (service design and transformation) or **WHAT** it delivers (demand management and self-help).

Clearly demand management could simply be interpreted as stopping the provision of services and should be seen as a last resort. The more dynamic approach is to look to transform the organisation going forward and this is covered elsewhere in the report.

However, to deliver transformation within an organisation requires an initial investment portfolio to facilitate work streams to identify and deliver transformation. Any investment must however be able to return on expenditure incurred and through the benefits realisation assessment, it will be determined whether releasing funds provides a suitable return (which may be assessed as a ratio of, for example, 1:3 or for every £1 invested a saving of £3 will be realised). The funding for this is covered earlier in the report.

10. LEGAL IMPLICATIONS

- 10.1 The Council is under a legal obligation to achieve a balanced budget whilst complying with its statutory obligations to deliver services and to secure best value. As indicated in this report, this is unlikely to be achieved under the Council's current operating structure. Such a scenario would have far reaching implications for the Council in terms of the public and in terms of the Council's Bond which may require to be repaid.

In order to support the implementation of the new Target Operating Model, there will be a requirement to change the current governance framework as detailed in recommendation d (ii), as well as to ensure the framework complies with the Council's statutory duties.

11. MANAGEMENT OF RISK

- 11.1 All significant change carries risks and it is key that the Council has strong change management and governance arrangements in place to identify, assess and control risks in the delivery of change. This report includes proposals for the establishment of a Strategic Transformation Committee with responsibility for overseeing these changes and a clear governance structure and programme management approach supporting the decision making process to help deliver transformation. The Strategic Transformation Committee will have overall responsibility for management of risk as implementation and delivery of transformation is progressed. Each individual workstream within the Transformation Portfolio will identify and manage all risks associated with the workstream. Appropriate Risk Registers will be maintained and governance applied through the board structure.
- 11.2 Risks associated with the Transformation Portfolio are not separate from the Council's existing system of risk management. Whilst programme and project risk registers will be maintained, both strategic and operational risk registers will also require to be reviewed within the context of this significant organisational change.
- 11.3 One risk which it is clear will require to be continually assessed and managed throughout the implementation of the Transformation Portfolio is the available capacity within the organisation to maintain service delivery whilst realising significant change. This will need to be one of the primary considerations for strategic and operational risk assessment. It is also suggested that a continual dialogue is maintained with the Council's internal and external auditors to ensure that recommendations from their review work are consistent and proportionate with the organisation's priorities and capacity during the transformation.

12. IMPACT SECTION

12.1 As explained throughout this report, the primary objective of the proposed transformation is to ensure that, in a challenging and changing operating environment, Aberdeen City Council is fit for purpose to deliver its agreed priority outcomes for the City, its citizens and communities. These outcomes are expressed through the Local Outcome Improvement Plan and the Strategic Business Plan under the themes:-

- Economy
- People
- Place
- Technology

12.2 Each element of the Transformation Portfolio will continually reference the delivery of these priority outcomes.

12.3 Impact on staff – It is very evident that the new Target Operating Model proposed represents significant change from the existing model and it will require staff to adopt new ways of working. Without these new ways of working, the new Target Operating Model will not come to life and deliver the performance edge which it has been designed to achieve. Work to date on shaping the culture of the organisation has centred on improving our customers' experience, our staff experiences and improving our use of resources. The Target Operating Model continues with this focus on customer, staff and resource and, therefore, we have a good alignment between the culture and the business strategy for the organisation. Although we need to continue to focus attention on shaping the culture.

12.4 Staff of course will be interested in what the changes will mean for them individually in term of their role, responsibilities and ways of working. A communication group is being established to ensure that a comprehensive internal communication plan is put in place.

13. BACKGROUND PAPERS

None

14. APPENDICES

- Appendix A - Target Operating Model Paper (including Urban Governance)
- Appendix B - Director Job Profiles and Salaries

Appendix C - Transformation Portfolio
Appendix D - Strategic Transformation Committee
Appendix E - Transformation Fund

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