

ANNUAL GOVERNANCE STATEMENT

For the Year ended 31 March 2011

1. BACKGROUND AND SCOPE OF RESPONSIBILITY

- 1.1 Swale Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in services, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Members and senior officers are responsible for putting in place proper arrangements for the governance of Swale Borough Council's affairs, the stewardship of the resources at its disposal and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 To this end, in February 2008 Swale Borough Council approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is available on the Council's website <http://www.swale.gov.uk/assets/Strategies-plans-and-policies/CorporateGovernanceLocalCode1.pdf>
- 1.4 This statement explains how Swale Borough Council has complied with the code and also meets the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement.
- 1.5 Swale Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and management of risk.
- 1.6 This is a corporate document owned by all senior officers and Members of the Council.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost – effective services.

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- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the Annual Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

Introduction

- 3.1 This section of the statement will set out the key issues for the Council in the year relating to the overall governance arrangements. Its focus is on changes in the year rather than restating the core governance arrangements of the Council.

Vision and Corporate Priorities

- 3.2 The 2010-11 year was the last full year of the 4 year electoral cycle and was also the last year in which the Council was elected in one-thirds. In March 2010 the Council decided that it would adopt all out elections from 5 May 2011 onwards. This meant that there was a light touch refresh of the Corporate Plan and no change to the overarching vision for the Council or its corporate priorities.
- 3.3 The highest corporate priority for the Council is Regenerating Swale. The year saw some major projects move forward which will have made a significant contribution to this objective:
- Sittingbourne Town Centre redevelopment – a brief for a development partner with support from CBRE was put to the market and a partner organisation, Spirit of Sittingbourne, was selected with a view to them becoming the Council's development partner. Spirit of Sittingbourne have exciting ideas for the town centre and negotiations on the development agreement continue.
 - Milton Creek Country Park – this is a £2m project funded by HCA monies to establish a country park to the north of the town centre and reopen and improve public access routes around the creek. The park will be soft opened in the summer with full opening after the completion of the Northern Relief road.

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- Major road building schemes in the Borough – the Sittingbourne Northern Relief Road and the Rushenden Relief Road – both progressed well and remain on track for their completion towards the end of 2011.
 - Rushenden Retrofit- this major partnership project involves improving more than 300 private sector and social rented homes in the first phase. The total project is in excess of £2.5m including the physical installation of energy efficiency measures, energy advice and training and employment opportunities for Residents. HCA are also funding extensive monitoring and evaluation of the project to develop research that can be used nationally to help progress the national climate change agenda
 - Sheerness Gateway – the Council has been working with Kent County Council to establish a gateway facility in Sheerness High Street. The new facility will open in the autumn.
 - The council continued to work with Peel Ports to create a favourable climate to attract a major wind turbine manufacturer to the Port of Sheerness.
- 3.4 After the General Election in May 2010 the new Government abolished the Comprehensive Performance Assessment regime for Councils and the Use of Resources methodology. Whilst the Council welcomes reducing bureaucracy the timing is regrettable as we believe that the Use of Resources scores would have shown a significant improvement – independently validating the progress made by the Council towards the corporate priority of Becoming a High Performing Organisation.

Management Processes

- 3.5 A new senior management structure for the Council was implemented from 1 April 2010. This established 3 directorates; Chief Executive (with the Head of Policy and Communications, the Head of Service Delivery and the Head of Commissioning and Customer Contact) reporting directly to the Chief Executive), and two directorates, Regeneration and Corporate Services, both the latter headed by Directors. These postholders plus the Head of Finance make up the Council's Strategic Management Team who meet weekly. All Heads of Service meet with the Chief Executive monthly in the Operational Management Team. Third Tier Managers and above meet quarterly and there are mandatory staff briefings quarterly.
- 3.6 Staff receive a monthly Team brief with a personal introduction from the Chief Executive which is discussed at mandatory monthly team meetings.

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- 3.7 In June 2010 the first “Swale Stars” event was held. This was to celebrate excellent individual and team performance in the Council.
- 3.8 The new management processes set out above are now well embedded and have significantly improved the corporate capacity of the organisation.

Member Processes

- 3.9 The Council agreed on 8 December 2010 to adopt a strong leader model of political management. Such arrangements commenced after the May 2011 election. Under this arrangement the Council will be lead by a Leader who will remain in office for 4 years and will appoint a Cabinet to work with him to lead on policy development, to implement decisions within the policy and budget framework set by full Council and to run the Authority. The arrangement is designed to demonstrate and reinforce clarity of responsibility for governance.
- 3.10 The Council’s scrutiny arrangements are discharged through 2 committees, The Policy Overview Committee and the Scrutiny Committee. Both committees have a fundamental role to play in holding the Executive to account in receiving regular performance and financial monitoring reports to ensure proper stewardship of financial resources and achievement of performance indicators.
- 3.11 The Council has invested in Member Development to ensure that there is a formal, detailed training and development plan in place to equip members with skills to fulfil their community leadership and governance role. The Council’s programme was independently assessed and was awarded the Member Development Charter on 20 October 2010.
- 3.12 During 2010/11 the Local Strategic Partnership resolved to move to become a Locality Board with effect from May 2011. The Locality Board will have responsibility for overseeing and shaping local delivery of the Kent Recommitment and drawing together local public services for greater effectiveness and efficiency. A draft terms of reference has been produced for consideration at the first meeting on 26 May 2011.

Performance Management

- 3.12 For 2010-11 the Council had in place a comprehensive performance management system and process. This monitored achievement of Performance Indicators from the Corporate Plan and projects from the Unit Service Plans. Monthly reports were then made to Strategic Management Team and Cabinet with quarterly reports to Scrutiny Committee.
- 3.13 The outturn position for the year is:

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- Performance Indicators – 31 indications (78%) met their target and 8 (22%) did not.
- Corporate Actions – 76 (84%) are complete and 14 (16%) overdue.

All major projects have been subject to formal project management disciplines with monthly reporting to SMT.

- 3.14 The performance management outcomes are good and the new processes have been well received by members across the board.

People Management

- 3.15 From 1 April 2010 a new pay and grading structure was implemented across the Council. This reduced the number of grades, reduced the number of pay scales and ensured that the Council was able to demonstrate compliance with equal pay legislative requirements.
- 3.16 A new appraisal and target setting process was also introduced from 1 April 2010 which is consistent, mandatory and was closely monitored by SMT to ensure adherence.
- 3.17 The Council remains committed to supporting the training and development of staff. All 34 third tier and above managers have participants in the Seven Habits programme designed to improve personal effectiveness and develop management skills. The training budget was frozen in 2010-11 to help deal with the in year budget problem but SMT ensured the budget is not reduced for 2011-12.
- 3.18 Also from 1 April 2010 the Council commenced an agreement with Maidstone Borough Council to buy a payroll service based upon the iTrent system. This was implemented well and the service has run smoothly.
- 3.19 These changes have thoroughly modernised the Council's HR policies and practices and ensure that the Council makes best use of the available people resources.

Financial Management

- 3.20 The Council budgeted for £1.6m of savings in 2010-11. The outturn position for 2010-11 is a small underspend of £600,000. This is a highly satisfactory outcome given that in mid 2010 an overspend of £600,000 was forecast. Such a large overspend required a concerted effort from across the whole Council to pull round. The main lessons from this experience are that the Council has to be realistic about the level of savings which are achievable and improvements are necessary in how service managers monitor their budgets.

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- 3.21 For the 2011-12 budget the Council faced major reductions in funding - £1,712,000 less formula grant and £1,800,000 specific grant – equivalent to around 18% of the Council's net budget requirement. To meet this new funding position the Council budgeted for savings against the base budget of £1.4m, additional income from fees and charges of £200,000 and £1,500,000 of savings against expenditure previously supported from specific grant. The revenue budget was balanced without reducing front line services, or using the Council's Reserves and 60% of the New Homes Bonus will be spent on regeneration projects.
- 3.22 Many of the savings made came from ideas generated through the Council's Value for Money Group. Themes such as spans and layers savings and procurement related category management were major contributions to the savings total.
- 3.23 The Scrutiny Committee took up as a major theme in the year the level of outstanding sundry debt following on from a poor audit report. The level of sundry debt was reduced and a Substantial audit opinion received.
- 3.24 The Council's last permanent Chief Financial Officer left the Council in June 2009. From July 2009 to July 2010 the position was covered by a professional interim manager and since July 2010 by a part-time secondment from Kent County Council. The Chief Financial Officer is 1 of the Council's 3 statutory officers and has a crucial role to play in supporting SMT Cabinet and full Council through these challenging times. The arrangement with KCC will continue into 2011-12 giving greater stability and continuity. The Finance Department's Accountancy Team was restructured in September 2010 after a prolonged period of uncertainty over the structure and each individual has responded well to the new approach and to more emphasis being placed on working closely with service managers.
- 3.25 The District Auditor has stated that "I am encouraged at the progress the Council has made in strengthening its financial management over the last year, in extremely challenging circumstances".

Risk Management

- 3.26 The Council has undertaken Risk Workshops for SMT, Cabinet and other senior managers and Members run by the Head of Audit Partnership and Audit Manager. This has assisted in prioritising the major risks faced by the Council.
- 3.27 The risk workshops have been facilitated by Zurich Management Services and have led to the creation of a new Strategic Risk Register.

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- 3.28 The new Strategic Risk Register is based around the risks to the delivery of the Council's key strategic objectives. Each risk has been allocated to a Head of Service who will 'own' the risk and be responsible for taking the necessary action, via a detailed action plan, to manage the risk.
- 3.29 The new Strategic Risk Register will be reported to Cabinet early in the 2011/12 municipal year.
- 3.30 The training for Senior Managers (including service and unit managers) will allow them to identify the risks to the delivery of their services and take the necessary management action to ensure delivery of their service objectives.

Partnerships

- 3.31 The Council works in partnership with other Councils on a wide range of services, primarily, Kent County Council, Maidstone Borough Council, Tunbridge Wells Borough Council, Medway Council, Gravesham Borough Council and Ashford Borough Council. The rationale for this partnership working is primarily robustness and stability of the service and cost.
- 3.32 The last year has been a testing one for the Mid Kent Improvement Partnership (MKIP). Ashford have now withdrawn from any new arrangements and there was a range of progress made on other MKIP projects. The Internal Audit partnership is working well and giving tangible benefits to the Council. The joint payroll arrangement with Maidstone has now expanded to a shared Head of HR and shared HR function. These two projects are models of collaborative working. The Legal Services collaboration has struggled to make progress due to the inability to recruit a Partnership Manager and pressures on the 3 legal departments but the Council has continued to receive high quality legal advice. In September the Council decided not to participate in a shared revenues and benefits service with Maidstone and Tunbridge Wells. This reflected a strong belief in the service delivery model used in the Council and our ability to make larger savings without significant implementation costs.
- 3.33 The 3 Councils Chief Executives' commissioned a review of MKIP by the Audit Commission which reported in February 2011. The future direction of MKIP will be determined after the May elections.

Procurement

- 3.34 The Council has not historically had its' own specialist procurement staff. The VFM Group identified Procurement as an area which needed strengthening and since September a highly experienced local authority procurement professional has been undertaking project work reporting to the Head of Customer Contact and Commissioning.

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3.35 This work has focused on:

- Amendments to Contract Standing Orders.
- Training and support to staff.
- Procurement Intranet support standard documents, templates and guidance.
- Completion of formal consultation and amendments to Procurement Strategy.
- Identifying savings through category management and on the Council's major contracts.

This has improved the robustness of procurement practices and category management delivered significant savings in the base budget.

3.36 The Head of Customer Contact and Commissioning has also made good progress in negotiating cost savings on the Council's major contracts.

Internal Audit

3.37 From 1 April 2010 the Council's internal audit service has been provided through a joint arrangement with Maidstone, Tunbridge Wells and Ashford. The Council shares an Audit Manager with Maidstone who is managed by the Head of Audit Partnership who at Swale reports to the Corporate Services Director. This has significantly improved the quality of the service and the audit coverage possible.

3.38 A total of 24 audit projects have been completed during the year which is less than the original target of 30. The reasons for the shortfall have been addressed and it is anticipated that the full target will be achieved in 2011/12.

3.39 Of the 19 audit projects given an audit assurance level the opinions were:

High	2
Substantial	10
Limited	6
Minimal	1

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The number of Limited opinions reflects the fact that many of these areas had not been subject to internal audit for many years. The Minimal opinion on Sports Development is of particular concern. We expect that as areas are revisited the audit opinions will improve due to the implementation of previous audit recommendations.

- 3.40 The Audit Committee also participated in a joint review from Local Government Improvement and Development to benchmark the way the Committee operated against best practice. The review commented on the Swale Audit Committee that it had “Committed and enthusiastic members and the Committee addresses the full scope of Audit Committee activity”.

4. REVIEW OF EFFECTIVENESS

- 4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit’s annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 4.2 The Council’s Annual Report and Performance Plan reports on performance against key priorities and outlines priorities and targets for the forthcoming year.

Executive and Scrutiny

- 4.3 Cabinet receive monthly Performance Monitoring Reports, which report on performance against our key priorities and sets robust and challenging targets. The Forward Plan is used to publish all proposed decisions to be taken by the Executive that are significant financially or in terms of the impact they will have on communities (i.e. key decisions). For agenda planning purposes, the Authority aims to include all items on the forward plan, including those that are not key decisions. A “call-in” procedure allows all members and Scrutiny to review Cabinet decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. The Council’s reporting arrangements enable any Councillor to request that an overview and scrutiny panel considers an issue of local concern. The Scrutiny Committee has also been built into the Council’s future performance escalation process.

Audit Committee

- 4.4 The Audit Committee receives regular updates from the Head of Audit Partnership on the assurance which can be placed against various systems and processes reviewed during the year, along with

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an annual assessment at the year end. The Committee keeps a check on those areas that have not achieved a satisfactory level of assurance.

Standards Committee

- 4.5 The Standards Committee meets as necessary to consider matters relating to governance and the operation of the Code of Conduct.

Internal Audit

- 4.6 Based on internal work undertaken throughout the year and current risk assessments, and assurance statements provided by Heads of Service, the Head of Audit Partnership assesses the overall level of internal controls in place to inform his Annual Internal Audit report. The Annual Internal Audit report provides evidence to support the Annual Governance Statement. The Internal Audit Service will continue to measure itself against best practice.
- 4.7 In his report to Audit Committee on 25 May the Head of the Audit Partnership reported that in his opinion “substantial reliance can be placed on the Council’s control environment in terms of the overall adequacy and effectiveness of controls and processes which are in place to achieve the objectives of the Council”.

5. SIGNIFICANT GOVERNANCE ISSUES

- 5.1 On the basis of this Annual Governance Statement compiled and reviewed by the Council’s Strategic Management Team, we are satisfied that the Corporate Governance arrangements for the Council are adequate and are operating effectively. The 2 unsatisfactory internal audits have been referred to above and are being followed up.
- 5.2 This report has made frequent references to a number of improvements made during 2010/11. These changes are significant, are bedding in well and should provide higher levels of assurance to members of the robustness of the Council’s corporate governance arrangements.
- 5.3 The main areas for senior management and Member attention moving forward are:
- Relationship between service planning and financial planning – this will be addressed through the complete revision of the corporate plan.
 - Delivery of a balanced 2012/13 budget – the 2011/12 budget focussed on management efficiency savings. The size of the savings required for 2012/13 means that we will have to look at significantly reducing or stopping services currently

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delivered by the Council. Producing option, fully consulting, meeting equality requirements and deciding between options will be very challenging.

- MKIP – determining the most appropriate way to move partnering arrangements forward.
- Risk Management will be developed during 2011/12, with Cabinet being asked to endorse the new Strategic Risk register. Operational risk registers will be developed at a service level. Covalent will be used as a repository for the risks and to monitor the action taken to manage them.
- Two Internal Audit reports identified significant control weaknesses which had not been resolved at 31 March 2011. the reports were for 'Sports Development' and 'Development Control Enforcement'. Internal Audit will carry out a follow-up to each report to ensure that the action proposed by management has taken place in practice.

Signatures Date
Leader of the Council

..... Date
Chief Executive