

For the Year ended 31 March 2014

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 In April 2013 Cabinet agreed a new Local Code of Corporate Governance reflecting the CIPFA/SOLACE Delivery Good Governance document published in late 2012. The documents considered how the Council was performing against the principles identified.
- 1.4 This statement explains how Swale Borough Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011 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 the 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.
- 2.2 The system of internal control is a significant part of that framework, and is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's aims and objectives, to evaluate the likelihood and the impact of those risks should they be realised, and to manage them efficiently, effectively and economically. The system is designed to manage risk to a reasonable level - it cannot eliminate all risk of failure to achieve

stated aims and objectives, and can therefore only provide reasonable rather than absolute assurance of effectiveness.

- 2.3 The Governance Framework has been in place at the Council for the year ended 31 March 2014 and up to the date of approval of the Annual Statement of Accounts.
- 2.4 This Annual Governance Statement is intended to be a challenging assessment of where the Council stands identifying strengths but also areas of weakness which need to be addressed.

3. THE GOVERNANCE FRAMEWORK

Introduction

- 3.1 This section of the Statement sets 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.
- 3.2 In May 2011 for the first time the Council held all out elections which returned 32 Conservatives, 13 Labour, 1 Liberal Democrat and 1 Independent. The Conservatives then formed the governing Administration working under the 'Strong Leader' model. Since then one Conservative councillor has moved to UKIP.

Vision and Corporate Priorities

- 3.3 A new Corporate Plan was agreed by Cabinet in April 2012 and Council in May 2012. The Council's three strategic priorities are:
 - Embracing Localism – demonstrating how we (the Council) will embrace the localism agenda whilst empowering individuals and communities to take more responsibility for their own futures;
 - Open for Business – working with the private sector and other public service partners to create the conditions for growth and to promote a positive image for the Borough; and
 - Healthy Environment – nurturing the place which is Swale in its broadest sense, both a physical place and as a community.
- 3.4 An annual refresh report was made to Cabinet in April 2014. The Leader has asked for a complete refresh of the plan before March 2015.

Management Processes

- 3.5 The senior management structure of the Council has continued to evolve. The Head of Corporate Strategy and Communications left in October 2013 and the post was not replaced. The Policy Manager now reports direct to the Chief Executive and the Head of Economy and Community Services manages the Communications Team. Given the financial environment savings in senior

posts can make a significant contribution - two other senior managers moved to 3 day weeks. The weekly Strategic Management Team meeting remains at the heart of the management process, and the monthly wider Corporate Leadership Team is providing an effective forum for involving all Heads of Service.

- 3.6 The structure of a monthly team brief and quarterly Third Tier Manager and four-monthly all Staff Briefings has also been maintained. The staff engagement forum, Swale Voice (the staff panel) has continued and its chair attends the People SMT meeting on a quarterly basis.
- 3.7 The staff competencies framework has been thoroughly revised and now plays a central role in the annual appraisal and target setting process. This reflects the importance of behaviours as well as technical competencies. All Third Tier managers and above have or are participating in two day Coaching training supported by action learnings sets. Again here the emphasis is on improving the skill set and behavioural approach of managers.
- 3.8 With SMT meeting weekly and CLT monthly supported by management meetings and briefings and 1-1 meetings within each division there is a comprehensive framework for communication and discussion. This approach is strongly championed by the Chief Executive and managers throughout the organisation are aware of his example and the standards he requires. This framework ensures that the Council's values and ethical standards are met and ensures required processes are adhered to. This is supported by the monthly financial and performance reporting and quarterly HR reports all to SMT. Financial and non-financial performance is also reported quarterly to Cabinet and Scrutiny Committee.

Performance Management

- 3.9 For 2013/14 the Council had in place a comprehensive performance management arrangements. This monitored performance against corporate performance indicators and progress on actions and projects from Services Plans. Monthly reports were made to Strategic Management Team and quarterly reports to Cabinet and Scrutiny Committee. The corporate performance indicator set was updated at the start of the year to align more closely to the Corporate Plan and provide a more comprehensive and representative overview of the performance of the organisation as a whole.
- 3.10 The outturn position for 2013/14 on all corporate performance indicators is:
- 30 indicators (73%) met their targets;
 - 5 indicators (12%) missed their targets by no more than 5%; and
 - 6 indicators (15%) missed their targets by more than 5%.

The outturn is in line with the previous year in terms of of the proportion of indicators achieving their targets, which is positive given the Council's default position that the indicators become more demanding year on year.

Reasonably up to date comparator data is available for just over half the Council's corporate indicators. Of these some 42% are performing in the best quartile of the comparator group and a further 19% above the median, although 29% remain in the lowest quartile.

Financial Management

3.11 The Council's financial position still primarily reflects the impact on Government reductions in expenditure to reduce the fiscal deficit. This is now well established and it is unrealistic to expect any major changes regardless of the outcome of the next general election and the overall economic climate. Increasingly this will mean that the Council's long term finances will depend upon income streams that it can control or strongly influence. These are principally:

- Council Tax
- Business Rates
- New Homes Bonus, and
- Fees & Charges

This has the potential to make the Council much more financially self-standing rather than relying on Revenue Support Grant. The downside of this is that total revenue will be lower and therefore so will the level of activity the Council can afford to undertake.

3.12 As we enter the sixth consecutive year of significant reductions in Central Government funding the approach of service managers has changed significantly. The avoidance of long term financial commitments, deliberately underspending and a far greater emphasis on generating income or winning specific grants is now much more embedded.

3.13 Despite the funding reductions the Council has been able to set balanced budgets with no call on reserves, indeed the Council has added to its reserves over the period. Additionally the Council has now held its level of Council Tax, the third lowest in the County, for 4 years.

3.14 The approach taken has worked well to date but the 2014/15 and 2015/16 budgets will be major challenges. To achieve balanced budgets further savings will be required and better links made between the Council's highest corporate priorities and its financial planning.

3.15 For 2014/15 savings totalling £957,200 were found with no reduction in front line services. The breakdown of savings was:

- Procurement – major contracts £474,200
- Financing items £272,000

- Efficiency Savings £107,200
- Reductions in management posts £103,700

3.16 For 2013/14 an underspend of £800,000 is forecast, or around 5% of the net budget of £16m. Managers are well aware that there is no need to spend up to the year end as good cases for roll-over will be supported by members.

3.17 The Finance Department continues to respond well to the challenges faced. The outcomes of the 2013/14 annual external audit were particularly satisfactory with Grant Thornton LLP commenting:

“Overall our work highlighted that despite the challenging financial environment and sustained periods of financial constraint the Council has continued to exercise a prudent medium term financial strategy. Financial planning and budget savings targets were agreed in 2012/13.”

The Council received the highest possible score for securing financial resilience.

Partnerships

3.18 The Council has continued to work with Maidstone Borough Council and Tunbridge Wells Borough Council through the Mid Kent Improvement Partnership (MKIP).

3.19 It is now integral to the business of the Councils that opportunities will be sought to work collaboratively whenever possible. The main issues for the year have been:

- A major review of governance options moving forward including the option of an arms length company. In the end it was decided that this option would not be pursued. As a one year trial it has been agreed that a single MKIP Director would be appointed and Heads of Service for those services in a MKIP shared service would report to this post.
- Shared service arrangements for Planning Back Office and Environmental Health have been agreed and will go live in mid 2014.

Overall the working arrangements between the 3 Councils do seem to have moved to a new level of maturity reflecting the mutual trust which exists at senior members and officer levels whilst at the same time ensuring that the interests of the individual Authorities are properly protected.

3.20 Other key partnerships such as the Thames Gateway Kent Partnership, and the South Thames Gateway Building Control Partnership, remain effective.

3.21 The Council's Internal Audit programme does cover partnership so internal controls are evaluated – for example the CCTV, Leisure Centre and Payroll audits during 2013/14.

Procurement

- 3.22 The joint waste contract between Kent County Council, Swale Borough Council, Ashford Borough Council and Maidstone Borough Council went live on a phased basis in December 2013 and April 2014. Service delivery seems to have proceeded smoothly and the substantial savings are on track to be delivered.
- 3.23 Other than the waste contract the main focus has been on embedding good procurement practice in the Council with the Procurement Team ensuring that EU and local procurement regulations are adhered to.

Internal Audit

- 3.24 The Internal Audit service continues to be provided through a four-way shared service with Maidstone Borough Council, Tunbridge Wells Borough Council, and Ashford Borough Council.
- 3.25 This is now the fourth year of the operation of the partnership. The service is highly valued by members and officers. The inevitable challenge process in undertaking this work is done highly professionally. The Audit Manager post covering Swale and Maidstone changed in September 2013 and the Head of Audit Partnership retired in April 2014.
- 3.26 A total of 22 audit projects have been completed during the year. Of the 22 audits the results were as follows:

Control Assurance	2012/13	2013/14
High	1	.3
Substantial	10	13
Limited	6	2
Minimal	1	0
Not given	4	0
Total	22	22

- 3.27 89% of assessed reports had a positive assurance assessment at the time of the audit, identifying control assurance as 'substantial' or 'high'. This compares with 61% in 2012/13. This is a strong endorsement of the internal control processes within the Council.
- 3.28 Overall audit outcomes have improved and consistently high ratings have been achieved for the core financial audits which because of the risks are very regularly received. Of the two reports that received a negative rating one has since been subject to follow up review and received a 'substantial' assessment. The other report concerned the 'Sustainable Sheppey' programme with concerns expressed on arrangements in place to monitor and

report on the achievement of different project strands. This report is due to be followed up in 2014/15.

Risk Management

- 3.29 The Strategic Risk Register first prepared in 2012 were fully updated in the last quarter of 2013/14. Operational risks are completed at Head of Service level in the Service Plans. The awareness and importance of formal approaches to risk management are now much better embedded in the Council.
- 3.30 Whilst the Council has done much to improve risk management in its internal processes the fact that so many services are provided through external contracts or partnerships does mean that the risk management in these arrangements needs to be more fully considered.

Community Governance Review

- 3.31 In June 2013 the Council launched a Community Governance Review to examine the scope for extending Town and Parish Councils, as appropriate, to the unparished areas of the Borough. As a first stage a twelve week consultation was undertaken involving around 23,000 households and 48,000 people. In all 167 responses were received of which 43% answered were favourable and 57% unfavourable to the option of establishing new Parish Councils.
- 3.32 There were significant differences in the proportion of favourable and unfavourable responses in different areas. Based on the results of the first-stage consultation, a second-stage exercise was undertaken involving a full postal ballot on establishing a Parish Council in Halfway and some further minor changes. As a result of this consultation Council decided that no changes will be made to current arrangements other than some boundary and other minor changes in Bobbing, Borden, Iwade and Tunstall.
- 3.33 The review was a positive initiative to test the appetite for more parishing and the outcome is disappointing given the highly positive role which can be played by Parish and Town Councils in driving forward localism. All local authorities have a responsibility for undertaking periodic community governance reviews such as this. By listening to the views of our residents we can ensure that our community is involved in how Swale is governed.

Sittingbourne Town Centre Regeneration

- 3.34 The objective of a major regeneration of Sittingbourne Town Centre has been a priority for many years. In 2010 the consortium Spirit of Sittingbourne was selected as the preferred bidder and since then negotiations have been ongoing to reach agreement on a viable regeneration project. Central to this is the difficulty of reaching a commercially acceptable project in an area of

relatively low land and property prices and with limited retail and restaurant offerings currently.

- 3.35 In April 2014 the principles for a revised development agreement was agreed by the Council. Once the development agreement has been formally revised Spirit of Sittingbourne will now move forward with the planning application.
- 3.36 The project has huge implications for the Council in terms of regeneration, planning and the financial consequences. This will be a dominant issue for the Council for much of the remainder of the decade.

4. REVIEW OF EFFECTIVENESS

Introduction

- 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, and also by comments made by the work of internal and external audit.

Standards

- 4.2 This year has been one of dealing with the practical implementation of the revised Standards regime. The Monitoring Officer has continued his pro-active role in ensuring good practice, good procedures and good governance. There have been a number of issues relating to planning which is not surprising given the quasi-judicial nature of the work. Matters raised by Members tend to relate to declaration of interests. The Head of Planning, with external support, has reviewed planning committee procedures and provided updated training for planning members.
- 4.3 The final complaint under the 'old' regime was resolved in May 2013 when the Standards Consideration Sub-Committee met to consider a complaint that a councillor's behaviour at a planning site meeting was unacceptable. Having considered the Investigator's Report and findings, it was decided that there was no case to answer.
- 4.4 Within the spirit of the lighter touch approach of the new regime, the Council has sought to have as consistent and proportionate approach across the Borough's parish and town councils as possible. The Registers of Interests required have been established and maintained. This includes all parish or town councils within the authority's area.
- 4.5 The Monitoring Officer's annual report to the Standards Committee identified a number of matters that had been considered that could potentially have come within the standards framework. It demonstrated that it had been possible to apply the Monitoring Officer filter to a number of potential complaints by seeking clarification of facts, explaining meeting procedures and the autonomy

of parish councils in their administrative rules. One complaint was referred for investigation following consultation with the Independent Person.

4.6 A review of the Constitution was concluded in February 2014 and covered amongst other things:

- Updating the casting vote procedure
- Clarifying voting rights for the Rural Forum
- Amendments to the terms of reference of the General Licensing Committee
- Review of scrutiny arrangements to establish the new Scrutiny and Policy Review and Development Committees.
- Revising the Call-in procedure

The Council will continue to consider further amendments to its decision making processes to support good governance.

Council

4.4 Council meetings continue to provide a highly effective forum for challenge and debate on major issues facing the Borough. Over the last year there has been an increase in the number of motions which has resulted in significant debates particularly on health issues.

Cabinet

4.5 The business of the Cabinet continues to be well managed. There are well established procedures within the Cabinet and the ruling group for discussing their approaches to issues with appropriate officer support. The process by which Cabinet reports go through SMT and that ensures appropriate financial and legal input is well established. SMT is a good challenge to report authors and reports to Cabinet are of a high standard. It is very important that the Leader of the Opposition and the Leader of the Independent Group feel well supported and briefed – this can vary between services but with examples of excellent briefings from Revenues and Benefits.

Scrutiny Committee

4.6 The Cabinet came to a view during 2013 that the Scrutiny Committee and Policy Overview Committee had too much overlap and there was a duplication in their role. As a result proposals were brought forward to Council in February 2014 which established a Scrutiny Committee and a Policy Development and Review Committee. The Scrutiny Committee satisfies the Local Government Act 2000 as inserted by the Localism Act 2011. It can review all decisions made by the Executive and Officers and plays a particular role in scrutinising the annual budget. The Policy Development and Review Committee will focus

on policy development, it will not be designated as an overview and scrutiny committee and will not consider “call in” items.

Audit Committee

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

Internal Audit

4.8 Based on internal work undertaken throughout the year, current risk assessments, and the adequacy of action plans 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.

4.9 In March 2014 the Head of Audit Partnership reported to Audit Committee on the External Quality Assessment of conformance by Internal Audit to the Public Sector Internal Audit Standards. The report was very positive with Mid Kent Audit conforming to 50 of the 56 principles and there were no fails. An action plan has been put in place. The report confirms independently the standards which Mid Kent Audit works to.

External Audit

4.10 Grant Thornton LLP continue as the Council’s auditors. The transition from the Audit Commission was well managed and the annual audit was undertaken in a highly professional manner.

Chief Financial Officer

4.11 The Head of Finance has responsibility for the proper administration of the Council’s financial affairs. This includes responsibility for maintaining and reviewing Financial Regulations to ensure they remain fit for purpose, and submitting any additions or changes necessary to the full Council for approval. The Chief Financial Officer is also responsible for reporting, where appropriate, breaches of the Regulations to the Cabinet and/or 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.

5.2 The main areas for members and senior management attention moving forward are:

- Sittingbourne Town Centre Regeneration – is a hugely important project for the Council.
- 2015/16 Budget – savings totalling £1.2m are required for 2015/16 from a substantially reduced base budget. This will require a much earlier start to the budget process and full engagement of the Executive and senior officers to achieve a balanced position.
- Risk management in major contracts and partnerships – this work needs to be developed further.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next review.

Signatures

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Leader of the Council Andrew Bowles
Date

Chief Executive Abdool Kara
Date