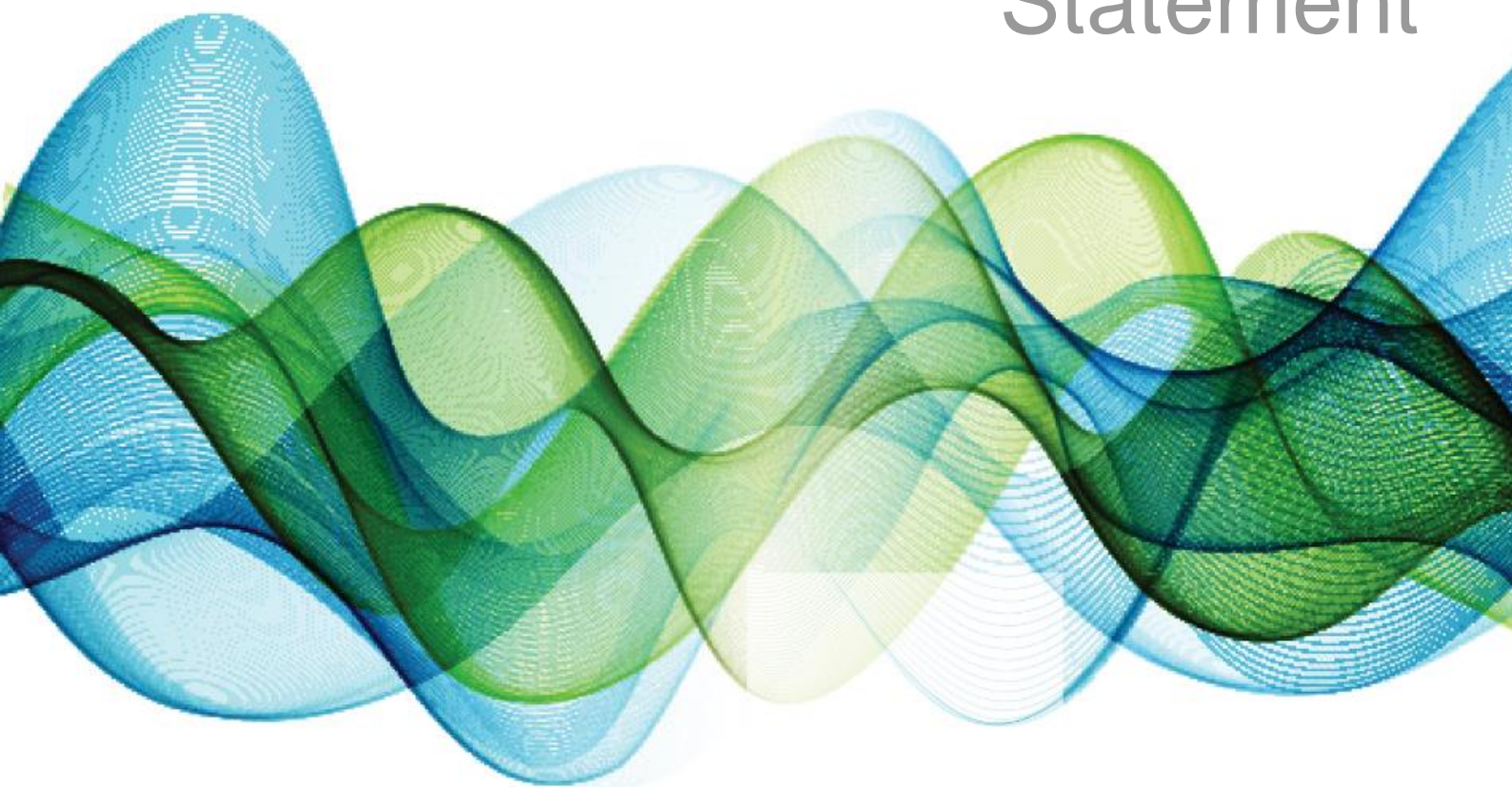


ANNEX A



milton keynes council

# Annual Governance Statement



**Date issued**  
20 June 2017

**Prepared by**  
**Duncan Wilkinson**  
Chief Internal Auditor

Milton Keynes Council (MKC) has an ambitious vision to ensure MK remains a special place in which to live, learn and do business. However, we are managing increasing demand on critical services and significant reductions in our funding.

Effective service commissioning and delivery has never been more important.

Good governance ensures that an organisation is doing the right things, in the right way and for the right people.

This means complying with relevant legislation and giving our operational and political leaders the right insight and assurance that this is happening. Our suppliers, partners and taxpayers also need to know that we are doing things correctly in order to protect their investment and reputation.

The effectiveness of MKC's governance framework has been reviewed and as Leader and Chief Executive we have been advised of the resulting implications.

Our overall assessment is that this annual governance statement (AGS) is a balanced reflection of MKC's governance environment and that an adequate framework exists within the organisation to maintain effective internal control.

We are also satisfied that there are appropriate plans in place to address the weaknesses identified and to ensure continuous improvement in the governance system.

Councillor Peter Marland  
Leader of Milton Keynes Council

Carole Mills  
Chief Executive – Milton Keynes Council

## What is Corporate Governance?

Corporate Governance refers to the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

*International Federation of Accountants / CIPFA 2014: International Framework: Good Governance in the Public Sector* further states that to deliver good governance in the public sector, both governing bodies and individuals working for them must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

Our governance arrangements aim to ensure that we meet our objectives and responsibilities in a lawful, timely, open, inclusive and honest manner and that our public money and resources are safeguarded, properly accounted for and used economically, efficiently and effectively.

The governance framework comprises the systems, processes, cultures and values by which MKC is directed and controlled, and through which we engage with and lead the local community. The framework brings together an underlying set of legal requirements, good practice and management processes.

## How do we know our arrangements are working?

To monitor the effectiveness of our corporate governance systems, we have approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA / SOLACE 2016: *Delivering Good Governance in Local Government: Framework 2016 Edition*.

This code is subject to review, challenge and endorsement by, Audit Committee or scrutiny panels as appropriate. A copy of the code can be located at [\[Insert Link\]](#) or via [www.milton-keynes.gov.uk](http://www.milton-keynes.gov.uk) or can be obtained from the Monitoring Officer.

Each year we review our corporate governance processes, systems and the assurances on the governance framework to create an annual governance statement. We review our compliance with the approved code of corporate governance, consulting with and obtaining positive assurances from the corporate leadership team, governance officers, and a member group representing each of the major parties.

In addition we also reflect and take into consideration the work of internal and external audit and other inspection bodies completed during the year. The issues identified during the review are highlighted in the action plan at the end of this statement.

This AGS builds upon those of previous years. It summarises the key governance framework which has been in place for the year ended 31 March 2017 and up to the date of approval of the statement of accounts and records any significant governance issues that need to be addressed over the coming year.

As we are continually changing and seeking improvement it is important that the governance arrangements are robust and flexible enough to manage change effectively and positively support our aims and objectives.

It is recognised that the governance framework cannot eliminate all risk and therefore only provide reasonable and not absolute assurance of effectiveness.

## How MKC works

The Council comprises 57 Councillors with one third elected three years in four. Milton Keynes Council is currently under no overall control which means that no one political party has over half the available seats required for an overall majority.

The leader of the Council is Councillor Peter Marland.

Labour (22 seats).

Conservatives (22 seats)

Liberal Democrats (13 seats)

Councillors are democratically accountable to the residents of their Wards. The overriding duty of Councillors is to the whole community, but they have a special duty to their constituents, including those who did not vote for them.

All Councillors meet together as the Council. At Council meetings, normally open to the public, Councillors decide the Council's overall policies and set the budget each year. At the Annual Council Business Meeting, the Council appoints the Cabinet, its Scrutiny Committees/Panels, and the Regulatory Committees, and during the year, the Council holds the Cabinet, the Scrutiny Committees and the other Committees to account.

The public has wide access to Council meetings through attendance, submission of deputations, questions and opportunity to contribute to debates. The Council's Meeting Information System gives dates and times of meetings and access to documents.

## Overview of MKC committee structure

Dem Services Committee structure diagram from CMIS to be inserted here

## Constitution

The constitution is available via the [Committee Management Information System](#) and sets out how MKC operates, how decisions are made and the processes that are followed to ensure that decision making is efficient, transparent and accountable to local people. A number of the codes of practice and procedures within the constitution are required by law, whilst some are chosen to reflect best practice arrangements.

The constitution further sets out the role of key governance officers, including the statutory posts, and explains the role these officers for ensuring that processes are in place to ensure that MKC meets its statutory obligations and also for the provision of advice to councillors, officers and committees on staff management, financial, legal and ethical governance issues. The statutory posts / roles are:

<b>Statutory Role:</b>	<b>Allocated To:</b>
Head of Paid Service	Chief Executive
Chief Finance Officer (Section 151)	Corporate Director – Resources & Commercial Development
Monitoring Officer	Service Director – Law & Governance
Director of Social Services (Adult Services Only)	Corporate Director – People
Director of Children’s Services	Corporate Director – People
Chief Education Officer	Corporate Director – People
Director of Public Health	Director of Public Health

The senior management structure within the council has seen some minor changes but largely stable throughout 2016/17. The key governance officers have been involved in the preparation of this statement and are satisfied that the arrangements in place are working effectively and that no matters of significance have been omitted.

## Structure

### Scrutiny committees

Scrutiny is a key part of the democratic process, monitoring Cabinet policy decisions and with a key role in advising on the development of policy. Scrutiny also has a broader remit to examine issues affecting MK.

There are three scrutiny committees and a management committee which supports the work of the Cabinet and MKC as a whole. They allow the public to have a greater say by holding meetings in public, and enquiring into matters of local concern. These lead to reports and recommendations which advise Cabinet and MKC on its policies, budget and service delivery.

An Executive Scrutiny Panel also monitors the decisions of Cabinet. It can consider decisions of Cabinet which have been “called-in” before they are implemented. This enables the Executive Scrutiny Committee to consider whether the decision is appropriate. It may recommend that Cabinet reconsider the decision or refer the matter to Council. Appropriate scrutiny select committees may also be consulted by Cabinet or Council on forthcoming decisions and the development of policy.

### **Regulatory committees**

A Development Control Committee and a Development Control Panel discharge MKC’s development control functions. A Regulatory Committee and Sub-Committee discharge regulatory functions such as a taxi licensing. A Licensing Committee and Sub-Committee discharge MKC’s functions under the 2003 Licensing Act.

### **Procurement & Commissioning Committee**

This committee exercises the functions of Cabinet in respect of all contracts for procurement of works, goods or services between the value of £100k and £20m, including ensuring compliance with contract standing orders including contract extensions, benefits realisation analysis, contract waivers etc.

### **Audit Committee**

This undertakes the core functions, and complies with best practice as detailed in CIPFA 2013: *Audit Committees – Practical Guidance for Local Authorities and Police* and has oversight of the delivery (as the ‘Board’) of the Public Sector Internal Audit Standards (PSIAS).

The committee takes a positive and proactive approach to governance and reviews progress on the AGS action plan, internal audit annual internal audit plan, anti-fraud arrangements including whistleblowing, risk management. The chair of the committee provides an annual report to full Council and which outlines the work of the committee during the year.

### **RegenerationMK Committee**

The RegenerationMK Committee has a responsibility to ensure officers continue to work with residents, tenants and community stakeholders, whilst ensuring that MKC collectively establishes, develops and delivers through the partnership with Mears Group Plc, changes that will potentially bring about lasting improvement across the city. The committee consists of seven members and meets four times per year.

### **The Corporate Parenting Panel**

All MKC members have shared corporate parenting responsibilities. However, the panel acts as the corporate parent to all the children and young people who are in the care of MKC and ensures that our pledge to children in care is delivered. The

panel is also responsible for raising awareness of the needs of children in care across MKC and its partners.

### **Other stakeholder involvement**

MKC appoints representatives to various joint and external bodies, where we either have formal responsibilities and / or our wider community role is best delivered via such partnerships. These include Fire Authority, Police and Crime Commissioners' Office, Health and Wellbeing Board (with NHS partners) and the South East Midlands Local Enterprise Partnership (SEMLEP).

### **LGSS Joint Committee**

We joined the LGSS Shared Service Partnership as a full joint committee partner in April 2016 for the delivery and sharing of a number of back office / support functions including:

- Human Resources
- Finance
- ICT
- Revenues & Benefits
- Procurement
- Internal Audit, Risk Management and Fraud
- Insurance

LGSS is managed by through a joint committee where MKC has three councillors appointed to represent us. It is a decision making body with delegated powers from each partner. These delegations include responsibility for setting the LGSS budget, agreeing a service plan, monitoring performance and quality of service delivery and making decisions on expenditure and commercial arrangements.

In addition, the LGSS Joint Overview & Scrutiny Working Group reviews the operations and performance of LGSS.

### **Council owned companies**

MKC has two Limited Liability Partnerships (LLPs):

#### *Milton Keynes Development Partnership (MKDP)*

MKDP was established in 2012, and approximately £32m of assets purchased from the Homes and Communities Agency transferred to the LLP in January 2013. The purpose of MKDP is to deliver optimum economic value to the citizens of MK in line with the MKC's corporate plan and economic development strategy.

The governance arrangements for MKDP are defined within the members agreement. These include the requirement for a board made up of councillors and independent members to which the MKDP Chief Executive is responsible. The MKDP Chief Executive and the board are responsible for the general management of MKDP operations.



## YourMK

YourMK is a jointly owned company / venture established in February 2016 between MKC and Mears Group PLC. The company provides a repairs and maintenance service for over 11,500 homes across MK and leads a regeneration programme which, over the next 15 years, will make lasting changes in areas of the borough through investment and community engagement.

The governance arrangements for YourMK are defined within a members' agreement. These include the requirement for a board consisting of up to three appointed representatives from MKC and Mears Group PLC.

## The Council Plan

MKC's Council Plan sets out how we will work to achieve our ambitions for MK. Within it are the priorities we will address between 2016 and 2020, and a more detailed delivery plan.

The plan has been developed by the Labour Administration within the framework established by *The Agreement to Work in Partnership (the agreement)* signed on 12 May 2016 by the Leader of the Council and Leader of the Liberal Democrat Group.

Its priorities and policies flow from the Labour manifesto commitments and those of the MK Liberal Democrat Group and therefore the priorities presented in the agreement.

### **Vision**

Our vision is for a thriving, dynamic European Destination City and to ensure a fair, hardworking and more equal MK for all.

MK is the most successful new town. We have attracted generations of people and businesses to move to and stay, created thousands of jobs and built a city with high quality infrastructure and green space because we have been at the cutting edge of modern thinking.

MKC wants to enable a 21st Century MK while preserving what makes us special; an internationally recognised centre of prosperity, economic innovation and cultural creativity, in a high quality green space and built environment.

Our three key aims for MK are for it to be a place of opportunity, an affordable place and a healthy place.

## Review of effectiveness

MKC has a responsibility to conduct an annual review of the effectiveness of its governance framework, including the system of internal control.

This is informed by:

- Annual assurance opinion of the Chief Internal Auditor
- Performance against targets
- Annual director assurance statements
- A review of the progress made with regards to the implementation of the previous year's AGS action plan.

The review of effectiveness of our governance framework is informed by the work of the Corporate Leadership Team who have responsibility for the development and maintenance of the governance environment, Chief Internal Auditors' Annual Report, and also by comments made by the external auditors and other agencies and inspectorates. The Annual Governance Statement Task Group (AGSTG) considers the draft Annual Governance Statement on behalf of the Audit Committee prior to that Committee's formal consideration of the AGS.

The AGSTG consists of the Chair and Vice Chairs of the Audit Committee. The AGSTG undertook a review of significant governance issues identified. The key evidence to support the review of effectiveness is outlined below:

### **Planning**

The Corporate Core drives delivery of the council plan, working closely with services to spread best practice, track and strengthen performance.

### **Performance Management**

The Corporate Core works with all services to ensure the economical, effective and efficient use of resources. The team plays a key role in supporting delivery of projects and helps drive continuous improvement in the way in which functions are exercised, by having regard to a combination of economy, efficiency and effectiveness.

In addition, a number of governance mechanisms are in place to support performance management across the council, which include:

- Monthly performance reporting to the Corporate Leadership Team;
- Quarterly updates to Cabinet on the delivery of the Council Plan;
- Performance management support to Department Management Teams in the form of monthly / quarterly dashboards.
- Quarterly performance reports to the Scrutiny Management Committee.

## **Delivery of Projects**

MKC Portfolio Office (Pfo) seeks project and portfolio assurance based on the three tier (or three lines of defence) assurance model.

Assessment of and improving organisational capability:

- Developing and managing the MKApproach - recognised approach to project management
- Identifying and advising on overarching project issues e.g. lessons learned
- Assessment of project management capability within the organisation

Confirming Project and Programme viability through:

- Membership and secretariat assistance to the Capital Programme Review Panel (CPRP) and the Integrated Assurance Group (Revenue Projects)
- Review of the management of corporate projects and programmes
- Assisting projects and programmes at start up through advice and facilitation
- Management of the Corporate Project Dashboard

Managing Gate Reviews:

- Assisting CPRP in validation at Review Points for Capital Projects
- Arranging for external Gateway Reviews through internal and external reviewers
- Providing a Health Check process for projects; and supporting Project Sponsors in assessments

## **The Audit Committee**

A well-established Audit Committee provides independent, effective assurance on the adequacy of MKC's governance environment. All major political parties are represented on the committee, supported by a further three independent members. Two independent members were appointed in March 2017, and bring a wide range of professional and community based experience.

The Audit Committee met regularly during 2016/17, however it should be noted that the January 2017 meeting was cancelled. The committee considers reports including the Annual Internal Audit Report from the Chief Internal Auditor and the External Auditor.

The remit of the Audit Committee is to:

- Provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- Provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority exposure to risk and weakens the control environment;

- Reviews Internal Audit performance against targets and quality assurance results; and
- Oversee the financial reporting process.

## **Management**

Each Corporate Director has provided a self-assurance statement in respect of 2016/17, supported by assurance received from their direct reports, that:

- They fully understand their roles and responsibilities;
- They are aware of the principal statutory obligations and key priorities of MKC which impact on their services;
- They have made an assessment of the significant risks to the successful discharge of MKC's key priorities; and
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks.

All staff, in particular managers, are responsible for ensuring that laws and regulations are complied with and that the authority's policies are implemented in practice. The Monitoring Officer and the Legal Services Team monitor compliance with, and awareness of, key laws and regulations. Corporate directors, service directors and service heads are responsible for monitoring implementation of the council's policies.

One of the key elements in obtaining the required internal control assurance for the Annual Governance Statement is the completion of the Annual Positive Assurance Statement by senior officers. Corporate directors were asked to compile their statement after reviewing the statements from their direct reports. Direct reports were asked to compile their statement after taking assurance from their senior / departmental management teams.

## **Internal Audit**

MKC takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole range of MKC's activities. It is the duty of the Chief Internal Auditor to give an opinion, at least annually, on the adequacy and effectiveness of internal control within MKC. This opinion has been used to inform the AGS.

The Internal Audit Service has been managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS), and this has been confirmed by the completion of an independent peer review of the Internal Audit function in November 2016.

A three tier assurance mechanism is currently in place that provides assurances as summarised in the table below:

<b>Assurance Tier 1 – Control Environment (5 Assurance Levels)</b>	
Highest Assurance - Substantial	Assurance Detail – There are minimal control weaknesses that present very low risk to the control environment.
Lowest Assurance – No Assurance	Assurance Detail – There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

<b>Assurance Tier 2 – Compliance Assurance (5 Assurance Levels)</b>	
Highest Assurance - Substantial	Assurance Detail – The control environment has substantially operated as intended although some minor errors have been detected.
Lowest Assurance – No Assurance	Assurance Detail – The control environment has fundamentally broken down and is open to significant error or abuse.

<b>Assurance Tier 3 – Organisational Impact (3 Impact Levels)</b>	
Lowest Impact - Minor	Impact Detail – The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.
Highest Impact - Major	Impact Detail – The weaknesses identified during the review have left the council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.

One of the key assurance statements MKC receives is the annual report and opinion of the Chief Internal Auditor. In respect of the 12 month period ending 31 March 2017, the opinion of the Chief Internal Auditor, taking account all available evidence, there is **Substantial** assurance over the adequacy and effectiveness of the council's overall internal control environment.

### **External Audit & Inspections**

Ernst & Young LLP are currently MKC's appointed external auditor, however going forward MKC has signed up to the Public Sector Audit Appointment arrangement from 2018/19. As well as an examination of MKC's financial statements, their work includes an assessment of the degree to which MKC delivers value for money in its use of resources.

The auditor issued an unqualified opinion in relation to MKC's 2015/16 statutory financial statements which include the single entity accounts for MKC and the group accounts incorporating MKDP. An unqualified conclusion was also issued in relation to MKC's arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

During 2016/17 external inspectors from Ofsted the Care Quality Commission (CQC) and the Office of the Surveillance Commissioners carried out four inspections on MKC registered services. Of these, three met the required

standards (received a Good overall rating). However, the inspection by Ofsted on “services for children in need of help and protection, children looked after and care leavers and review of the effectiveness of the Local Safeguarding Children Board” did not meet the required standards at the time. The full inspection report and improvement action plan was presented to the Children and Young People Committee in February 2017 and the implementation of the agreed action points will be monitored throughout 2017.

## **Risk Management**

All councillors and managers are responsible for ensuring threats *and* opportunities are considered in the decisions they take. MKC has in place a formally approved risk management strategy which is subject to annual review. That strategy sets out a corporate risk appetite that is not risk averse but seeks to support decision making that consider threats, identifies mitigations etc in order to ensure opportunities are seized and delivered.

In support of the delivery of effective risk management arrangements, a corporate risk management system GRACE is used to capture all relevant corporate / directorate and project related risks.

## **Update on 2015/16 significant governance issues**

The 2015/16 AGS included five significant issues which were to be implemented during 2016/17. All actions are now complete and closed.

*Action 1 - a review of the Code of Corporate Governance to be undertaken by 30 September 2016 now the new Governance Framework is published.*

- A revised Code of Corporate Governance produced in compliance with the revised Governance Guidance has been produced and was presented to Audit Committee on 28 March 2017.

*Action 2 - a register of key contracts will be maintained and contract management reviewed via gateway and Internal Audit reviews, by 30 September 2016.*

- A contracts register is administered by the Procurement Team and reviews have been completed on a sample of contracts / projects as agreed.

*Action 3 – the Monitoring Officer post filled by an Interim should be filled on a permanent basis, by 30 September 2016.*

- The Service Director Law and Governance was appointed during 2016/17.

*Action 4 – Assurance that LGSS partnership / governance arrangements are operational and embedded by 31 December 2016.*

- These measures are set out in within the partnership agreement and MKC’s interests / reporting arrangements exercised via representation on the Joint Committee.

*Action 5 – Assurance that governance arrangements are corporately visible, agreed and applied across MKC, by 31 December 2016.*

- Assurance was provided throughout 2016.

## **Significant governance issues 2016/17**

Based on MKC's established risk management approach, the issues detailed in the action plan overleaf have been assessed as being significant for the purpose of the 2016/17 AGS.

It is proposed over the coming year that steps will be taken to address the issues identified to further enhance MKC's governance arrangements.

## Annual Governance Statement Action Plan 2016/17

No.	Issue	Action	Outcome	Lead Officer	Completion Date
1.	<p><b>ERP Gold Implementation</b></p> <p>The Council is currently changing its Enterprise Resource Planning (SAP) system, this is our core financial and HR system, so is critical to a number of aspects of control and governance. We are currently developing the replacement system which is due to be implemented in Milton Keynes on 1<sup>st</sup> October 2017.</p>	<p>Project governance includes a Programme Board, with senior stakeholder representation. The Corporate Director of Resources sits on this Programme Board on behalf of MKC. There are work stream leads for each of the key elements of the programme who engage with colleagues through a network of working groups to inform the design of the system. Internal audit are also reviewing controls and governance, and providing advice as the system is developed. The project is being managed through a Prince2 project management approach. The system is currently undergoing user acceptance testing and plans for rollout and training are in place to ensure end users are able to use the new systems once they are available.</p>	Implementation of fit-for-purpose solution	Corporate Director-Resources	Oct 17
2.	<p><b>Financial Management</b></p> <p>In 2016/17 the Council faced a number of specific financial challenges including; a delay to the delivery of the Residual Waste Treatment Facility; a deficit from an academy conversion; increases in demand for children's social</p>	<p>The Council budgeted to deliver £24.3m of savings in 2016/17, £18.2m having been implemented, £4.4m delayed until 2017/18 and £0.5m having been deferred as part of the budget. Overall £1.2m (4.9%) is undeliverable, due to changes in circumstances.</p> <p>Our budget is robust and subject to scrutiny both from officers and Councillors, and</p>	Ongoing robust financial management and control	Corporate Director-Resources	Ongoing



	<p>care services; and temporary accommodation and government funding reductions to public health grant. These created an overspend of £3.0m. While our financial management remains strong, these issues illustrate the need to maintain good governance and to maintain sufficient capacity in reserves to manage unexpected issues during the year.</p>	<p>incorporates clear proposals for change; risk assessments and action plans. Effective financial planning and control remain essential to the management and delivery of services by the Council. Governance processes are in place, overseen by the Corporate Director of Resources. Our financial governance framework includes clear scheme of delegation; accountability letters for all budget managers; robust budget forecasting and monitoring; and regular reporting.</p>			
3.	<p>With the provision of significant Council services by LGSS, embedded governance to enable effective operational workings is key.</p>	<p>The formal governance arrangements for the LGSS Partnership are through the Joint Committee. This includes three councillors from MKC. The Joint Committee has been operating during the last year to ensure adequate oversight and decision making. Councillors had an introductory briefing to enable them to participate fully in Joint Committee meetings. There is also the LGSS Joint Overview &amp; Scrutiny Working Group to review the operations of LGSS which met in October 2016. There is also a monthly LGSS Management Board which supports the role of the Joint Committee and influences the operational delivery of services. The Corporate Director of Resources represents MKC as this forum, as the accountable offer for the services</p>	<p>Formalise and effective governance arrangements embedded.</p>	<p>CLT / Audit Committee</p>	<p>Ongoing</p>

		within the shared service. Performance and Service Quality is a standing agenda item, with its content developing.			
4.	<p><b>Ofsted Inspection Findings</b></p> <p>'Requires Improvement' outcome of our Ofsted inspection of child protection and services for looked after children.</p> <p>In a local authority that <b>requires improvement</b>, this means there are no widespread or serious failure that create or leave children being harmed or at risk of harm. The welfare of looked after children is safeguarded and promoted. However, the authority is not yet delivering good protection, help and care for children, young people and families,</p>	Complete action plan to address recommendations.	Action to address areas of weakness	Service Director – Children and Families	December 2017