

SC/008/11

Committee The Essex County Council and Essex Fire Authority Joint Standards Committee

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Governances Issues

1. Purpose of the Report

To update the Committee on the Governances Issues as outlined in the Statement (Annex 1) made by the Leader at the Full Council meeting on 12 July 2011.

STATEMENT FROM THE LEADER OF THE COUNCIL ON LORD HANNINGFIELD

Mr Chairman

I want to update Members on Lord Hanningfield's status as a member of this council and on the referral by the County Council to Essex Police to investigate concerns we have with his use of the corporate credit card during his time as Leader of this authority.

As members are aware Lord Hanningfield stood trial in May to face charges in relation to fraudulent expenses claims at the House of Lords. He was subsequently found guilty of those charges and on 1st July was sentenced to 9 months in custody. Lord Hanningfield has lodged an application for leave to appeal against the verdict of the jury.

The conviction disqualifies Lord Hanningfield from being a Member of the County Council although this will only take effect at the conclusion of any appeal process. Disqualification, should it occur, would be immediate and would lead shortly after to a by-election.

I can clarify that Lord Hanningfield was last paid his basic allowance on 23rd June *before* he was sentenced on 1st July. Under legislation we cannot suspend the allowance until either the appeal has been heard or the Standards Board have issued a ruling.

However I fully agree with the public sentiment that a councillor should not be able to receive an allowance if they are serving a custodial sentence of 3 months or longer and I am today proposing an emergency amendment to our constitution to allow us to suspend an allowance with immediate effect in such circumstances.

It is important to note that the trial in May related to charges of fraudulent claims at the House of Lords. He was not on trial for claims made at Essex County Council.

Nevertheless, as I said following the verdict of the court, the County Council has conducted a rigorous internal audit which has revealed concerns over Lord Hanningfield's use of the corporate credit card while he was Leader of the Council. The County Council takes extremely seriously the conduct of our members and all who work for us and we are committed to ensuring value for money for the taxpayer. Accordingly I agreed with the Chief Executive that we should refer the matter to Essex Police for investigation.

As a result of the ongoing police investigation I am advised by our legal team and by Essex Police that I am not able to provide any details on matters under investigation including individual expenditure items, relevant dates or the value of expenditure. I can however state that the investigation concerns the possible improper use of the corporate credit card that Lord Hanningfield had access to as Leader.

I want to set out - as clearly as I am able to - information about what the council knew and when, and what actions have been - and will be - taken to address the concerns of the public, our staff and our members.

It is important to set out a timeline of when the council became aware of concerns. Although there were some concerns raised prior to 2007, our internal audit team undertook a specific review on corporate credit cards within the 2007/08 audit programme and this highlighted some issues relating to a lack of receipts for expenditure on Lord Hanningfield's corporate credit card.

Lord Hanningfield was made aware of these concerns and was reminded by officers of the rules and procedures that should be followed. His expenditure was reviewed with him. In June 2008 the Annual Report of the Head of Internal Audit reported that there was 'limited assurance' around the use of corporate credit cards. This annual report was published within the Audit and Executive Scrutiny Committee. It reported that a follow-up audit would be carried out in 2009 to check progress at addressing areas of concern.

A follow-up audit was undertaken in summer/autumn 2009 and identified serious concerns. These concerns were subsequently raised in several meetings between officers and Lord Hanningfield during the autumn of 2009 as officers worked with him to establish more details and gain clarification on expenditure items where they could, before finalising the report which subsequently went to the Audit Committee in March 2010. At the same time the council shared the findings of its internal audit work with the Audit Commission and was also supporting the Metropolitan Police enquiry into his Lords expenses, which had commenced in July 2009. I must ask you to understand that because of this Police enquiry, it was not possible to be open about the work officers were undertaking at this time, for fear of prejudicing the enquiry. I must also emphasise that the work at this stage was concentrating on gaining greater clarity as to the nature of the spend given the lack of detail in some instances.

In December 2009, Council adopted the officer rules for travel, subsistence and expenses so that Members and Officers were governed by the same rules. At the same time the Independent Remuneration Panel was concluding its review of the member allowance and expenses scheme.

I was made aware of officer concerns in early February 2010. I agreed to take up these concerns with Lord Hanningfield but this was overtaken by events the next day when the Crown Prosecution Service announced on the 5th February that it would proceed with charges and Lord Hanningfield decided to stand down to contest those charges.

On becoming Leader in mid February 2010 I was briefed more fully by the Chief Executive, Monitoring Officer and Section 151 Officer on the concerns around Lord Hanningfield's use of the corporate credit card. Working with senior colleagues in the Cabinet and the corporate leadership team, we immediately set out to address the concerns and strengthen our corporate governance so that our residents and our staff could have confidence in our policies and procedures.

The conclusions of the autumn 2009 internal audit review were reported to the council's Audit Committee on 16th March 2010 - it was taken as a confidential item due to the police investigation that was underway and the need not to prejudice any possible trial. The audit report set out a governance action plan and we have taken actions under my leadership working with senior officers to strengthen our governance framework.

These changes have included the following:

- The establishment of a Corporate Governance Steering Board chaired by me as Leader to oversee the introduction of better governance processes and procedures. This Board includes the Chief Executive and the Monitoring Officer. Regular updates on progress are reported to the Audit Committee.
- We have reviewed and updated our entire Constitution, alongside a new Code of Corporate Governance, reflecting best practice nationally.
- We have updated and tightened policies and procedures for officers and members governing gifts, hospitality and travel, and purchase cards.
- We updated our policies on member allowances and expenses in May 2010 following an independent review. Expenses for the Leader and Cabinet Members must be signed off by the section 151 officer and expenses for all other members must be signed off by the Governance Manager. There is no reimbursement without the production of valid receipts. A recent internal audit has given us 'substantial assurance' that our strengthened policies and procedures are being followed by members. I have further requested that these should be audited by our external auditors this summer to give additional and independent assurance but I am confident that we now have controls and processes in place that are better than probably any other council in the country.
- We conducted an ethical governance audit last year through the Audit Commission and this involved interviews with staff, members of the council and partners. A follow-up audit is being conducted by the Audit Commission throughout late June and July.
- And Council is today asked to approve new approval processes for overseas travel with trips abroad by members and officers requiring approval from a panel containing the Chairman of the Audit Committee, the Chairman of Executive Scrutiny, the Leader of the Opposition and the Leader and Deputy Leader of the Council. This will ensure that all trips abroad are scrutinised and approved by a panel.

And we intend to go further. Firstly, in order to be transparent we will be publishing - as soon as we are able to following the end of the police investigation - itemised credit card expenditure by Lord Hanningfield. All member expenses are already published quarterly on our website.

Secondly we will also be placing on our website our responses to a series of Freedom of Information requests received recently relating to this issue.

Thirdly we will also be publishing – as soon as we can - the internal audit reports of 2008 and 2009 as well as the status report of our corporate governance action plan.

And fourthly we will consider further appropriate actions to take once the Police investigation has concluded and, if any inappropriate expenses have been claimed, this will include action to recover them.

I am satisfied that we have taken the necessary actions over the last year to strengthen our governance processes. On becoming Leader our senior officers made absolutely clear to me the seriousness of the concerns and the actions that were required to address them and I gave them my full support to implement those changes. We have also referred concerns to Essex Police for independent investigation and will also receive an external audit opinion from the Audit Commission on our member expenses system.

Nevertheless I think it is important that we do reflect on lessons that need to be learned.

There has been criticism that our policies and controls were not adequate to prevent abuse. Clearly our policies and controls were not at times stringent enough in the past to deal quickly and comprehensively with concerns. We allowed self certification at the Leader level – this was no different to many other authorities. In common with a lot of local authorities we accepted self certification as adequate. I am sure that others will follow our lead in tightening their processes and insisting on no reimbursement without receipts.

The position of Leader comes with great responsibility and we expect – more importantly the residents and taxpayers of Essex expect – that the Leader will always behave with integrity and not abuse their position. I hope that Members will agree that I have personally upheld the status of the office since I became Leader.

Over the past year we have tried to be more inclusive and open and transparent but due to the prosecution of Lord Hanningfield in relation to his Lords expenses there have been significant restrictions on what we could – and still can - say. This has been a hindrance to us rather than a help, but I hope that you will now be able to understand the enormous amount of work that has been going on behind the scenes to establish the facts and also understand our need to act in a way that did not risk prejudicing the enquiries underway into his Lords expenses.

But we have tackled the issues comprehensively over the past year and we have done so whilst remaining focused throughout on delivering the priorities of the people of Essex.

We delivered a budget in extremely difficult circumstances that minimised the impact on front line services and I am proud that we were able to avoid – unlike many other local authorities – some of the worst impacts on services. Every one of our 73 libraries remains open, the vital Meals on Wheels service is safe and will continue to support our most vulnerable, no children's centres are being closed and indeed more are being built, and the subsidy for passenger transport services remains in place.

But more than this we have continued to improve our services. Our services to our most vulnerable children are now improving and this has been recognised by Ofsted and in a peer review led by Nottinghamshire County Council. Our adult services have been rated as excellent in testimony to the hard work and dedication of our staff.

And we have continued to meet our transformation savings targets. We have now banked £150M out of the £300M each year that we need to save to meet budget pressures.

So we have focused on strengthening our governance whilst at the same time remaining resolutely focused on people's priorities.

Lord Hanningfield served the county council for 40 years and he played a significant role in the recent history of local government in Essex. This is a sad end to 40 years of public service.

I am confident that we have taken the measures necessary since I became Leader to improve our processes and that we are now leading the way nationally in terms of having robust processes and procedures in place for the sign-off and scrutiny of expenses.

The police investigation is still ongoing but I promise that I will keep Members and the residents of Essex informed of all relevant information as soon as I can.

Mr Chairman, in conclusion I want to make the following points:

This whole episode has taken up an enormous amount of member and officer time. Important lessons have been learned and our systems and controls are now as strong – I believe – as anywhere in the country.

We are delivering services that are rated as excellent or improving and we are delivering real value for money.

My message as Leader of this Council to the residents of Essex, to members and to our staff is now, please, let us get on with the job of delivering great services to those who need them and continue to deliver value for money for the taxpayer.