

Members' allowances

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Reason for Decision

This report provides the Audit Committee with an overview of issues identified in the administration of members' allowances, specifically relating to underpayments and overpayments. It sets out the underlying causes, the lessons learnt, and the measures implemented to strengthen controls and reduce the risk of recurrence.

Recommendations

The Audit Committee is asked to note the findings of this report and the actions taken to improve the robustness of processes relating to members' allowances.

Members' Allowances

1 Background

- 1.1 Members are entitled to allowances in accordance with the Council's Members' Allowances Scheme. Payments are administered via the payroll system, with information provided by Democratic Services and processed by the HR and Payroll teams. All Members are entitled to the basic allowance, and certain roles agreed by the full Council have a special responsibility allowance (SRA). An Independent Remuneration Panel (IRP) reviews Member allowances and makes recommendations to the full Council, who have a duty to consider the recommendations, but the final decision regarding allowances is with the full Council.
- 1.2 Once full council has made a decision about the Members' Allowance Scheme, which includes the setting of basic and special responsibility allowance rates, they have no further involvement in its operation or implementation, for example, Members are not required to submit a claim for basic allowance or special responsibility allowance. The responsibility for applying, administering, and ensuring compliance with the scheme rests entirely with officers.
- 1.3 In light of some members raising a query with their allowances in June, following the Annual Council meeting where roles which have a special responsibility allowance are agreed, the Assistant Director of Governance undertook a quality assurance exercise of allowances. This was ahead of the full quality assurance work, which is good practice in many other Councils, which was planned to take place during recess. Through the quality assurance exercise, discrepancies were identified in the payment of allowances, leading to both underpayments and overpayments dating back to the 2022/2023 members' allowances scheme.
- 1.4 The Chief Executive instructed a full review be undertaken by Internal Audit, Democratic Services, Finance, HR and Payroll to identify the issues and lessons learnt, which would inform the report to the Audit Committee.

2 Process for the review

- 2.1 Finance and Democratic Services carried out detailed checks of historical records to ensure that payments made were in line with approved rates. This process was particularly complex as it has required us to examine c2500 individual payslips, alongside minutes of council and committee meetings in order to confirm the precise appointment details and allowances applicable to each member at different points in time, including the tracking through when there have been changes in political groups and roles during each year.

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- 2.2 A review of communication between teams was also undertaken to establish what records were held and what instructions had been given.
- 2.3 Internal Audit subsequently carried out sample testing of the overpayment calculations based on the information provided by the Assistant Director of Governance, and the calculations performed by the Finance Team. No errors were identified based on the information provided.
- 2.4 The Head of Internal Audit and Counter Fraud has also reviewed the proposed process for notification of future changes to Members' allowances between Democratic Services, Finance, HR and Payroll and has confirmed that the proposed processes and controls appear reasonable and fit for purpose.

3. **Outcome of the Review**

- 3.1 Errors were identified across all serving Members and some former Members. The responsibility for applying, administering, and ensuring compliance with the scheme rests entirely with officers, because once full council made its decision about the Members' Allowance Scheme, they had no further involvement in its operation or implementation. The discrepancies arose from weaknesses in process, communication, and validation.
- 3.2 The following factors contributed to the errors:
- a) Inconsistency with dates entered into the payroll system
Start and end dates for allowances were not consistently recorded accurately. For example, there was evidence of Councillors who retired or did not return following the election, and they had been paid until the end of May, resulting in overpayments. There was also evidence that newly elected councillors had not been paid until the end of May, resulting in underpayments.
 - b) Lack of process for Members who forgo allowances
The Local Authorities (Members' Allowances) (England) Regulations 2003 Part 3, Regulation 13 provides that a person may forgo all or part of any allowances to which they are entitled, and must do so in writing. There was no evidence of records retained centrally in this regard. There was also lack of clarity when members forwent their allowance in one year, and how the national pay award would be applied in subsequent years.

c) Incorrect rates applied

Payments were made because inaccurate percentage rates had been applied as detailed below.

Financial Year	Correct Basic Allowance	Approved % increase	Actual Paid	Annual Variance	Actual £ increase	Actual % increase
2021/22	10151.04		10151.04			
2022/23	10502.27	3.46%	10459.39	(£43) underpayment	£308	3.04%
2023/24	10909.75	3.88%	10922.04	£12 overpayment	£463	4.42%
2024/25	11182.50	2.50%	12212.04	£1,030 overpayment	£1,290	11.81%

d) Incorrect roles applied

Some members were in receipt of more than one Special Responsibility Allowance (SRA) related to council business, which is not permitted under the scheme. Whilst payslips can be accessed via the online system, there was no evidence that Members had been told about the availability of this, or how to access the online system. Members therefore would not have had access to detailed breakdowns of payments. Once full council have agreed the Members' Allowance Scheme, they are not involved in the operational administration of the process, for example, they do not submit claims for SRA payments, it is purely a procedural matter for which officers are responsible for implementing.

e) Poor communication

There was no evidence to confirm documented instructions between teams had been implemented, for example, when national pay awards had been applied.

f) No, or limited record keeping

There was insufficient documented evidence that appointments and roles had been shared with HR and Payroll. When any in-year changes occurred there was no evidence of records being retained to track any changes which would impact on allowances, this included those members who forwent their allowance, or changed roles in-year. There was also no evidence of informing Members about their allowances, or when their allowances changed. There was evidence of partial compliance with the requirement to publish details of the total sum paid to each member in respect of basic allowance, special responsibility allowance, dependents' carers' allowance, travelling and subsistence allowance and co-optees allowance; as the Council published details of travel and subsistence; however, there was no evidence of publication of the amounts paid in respect of basic and special responsibility allowances, as required under the Local Authorities (Members' Allowances) (England) Regulations 2003, which may have brought these matters to light earlier.

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- g) No quality assurance
There was no regular quality assurance in place.

The factors outlined above contributed to overall issues relating to lack of clarity of roles and responsibilities, and no accountability of ownership.

3.3 To strengthen controls and prevent recurrence, the following measures have been introduced in response to the issues identified.

a) Agreeing clear start and end dates for payment

- i. Basic Allowance start date will be on the fourth day after the election day, when the newly elected councillors officially take up office
- ii. Basic allowance / SRA will cease on the fourth day after the election day, when the Councillor has retired / not returned
- iii. SRA start date will be from date of Annual Council meeting until the following Annual Council meeting (unless Councillor is retiring or not returned at the election, in which case (ii) above will apply)
- iv. For Councillors not standing for election, the Assistant Director of Governance will notify Finance, HR and Payroll within 3 days of the close of nominations, so that arrangements can be made to cease payments
- v. The day after the election, the Assistant Director of Governance will notify Finance, HR and Payroll of the Councillors that have not returned so that payments can cease in time for May payroll.

b) Improved communication and accountability

- i. A new process is attached at Appendix 1. This has been agreed between Democratic Services, Finance, HR and Payroll. This includes retention of records and instructions between teams, which will be held centrally.
- ii. Recording of information on an agreed form will be introduced as a way of issuing formal instructions, which will provide an audit trail for quality assurance purposes, and these will be held centrally.
- iii. Finance will verify any rates. All allowance rates will be subject to an independent check by Finance before being applied to the payroll system.
- iv. Introducing Member notification. Letters are to be issued to all Members at key points detailed below, to confirm any changes to their allowance rates or entitlements, as an additional layer of oversight, and this will include details on how to access payslips
 - Following elections
 - Following changes to appointments/roles
 - Following the national pay award
 - When members forgo allowances

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- v. When Members opt to forgo allowances, they will be required to complete a declaration for each relevant financial year and to submit this to the Assistant Director of Governance who will receive these on behalf of the Chief Executive. For example, if a member forgoes the national pay award in 2025/2026, they would be asked to complete a form and their allowance rate will remain unchanged until the next national pay award in 2026/2027, at which time they would be required to complete a new declaration for that financial year, or they would move in line with the new pay award (the uplift would not be applied to their previous rate). Records will be retained centrally of members who forgo their allowances, and this will also prompt a letter to the Member.

c) **Auditing of control measures**

Regular internal audits are scheduled to review councillor allowances, ensuring compliance and accuracy, as part of the audit of payroll. Democratic Services will also undertake quality assurance dip-sampling.

d) **Remedial actions will be carried out to adjust allowances where required and to notify affected Members and former Members.**

e) **A process for Members who wish to forgo their allowance will be introduced, whereby the member will be required to complete a form for the financial year to which it relates. If a member forgoes their allowance one year, it will be assumed that the following year that they will move onto the new basic allowance the following year unless they complete a new declaration form to forgo their allowance.**

3.3 **The Local Authorities (Members' Allowances) (England) Regulations 2003 requires the Council to keep a record of the payments made by it, in accordance with the scheme. At the end of the year the Council also has to make arrangements to publish the total sum paid in the year under the scheme to each recipient in respect of basic allowance, special responsibility allowance, dependents' carers' allowance, travelling and subsistence allowance and co-optees allowance.**

3.4 **In conclusion, the review has highlighted control weaknesses in the processing of Members' allowances. While underpayments and overpayments have occurred, there is no evidence to attribute these to individual error. Instead, they reflect shortcomings in processes and communication between services. With the lessons learnt and new measures in place, the Council is strengthening its assurance framework and reducing the likelihood of recurrence.**

4 Financial Implications

4.1 **The total cost of the issues identified in the administration of members' allowances, specifically relating to underpayments and overpayments is a gross amount of £110k before deductions/tax pending the verification process which is currently underway with Members.**

Lee Walsh – Director of Finance

5 **Legal Implications**

- 5.1 The actions within the report will strengthen compliance with the requirements within the Local Authorities (Members Allowances) (England) Regulations 2003. It is important that the Council operates to best practice standards and avoids a situation like this occurring again.

Alex Bougatef – Director of Legal Services

6. **Procurement Implications**

- 6.1 None.

7 **Equality Impact, including implications for Children and Young People**

- 7.1 No.

8 **Key Decision**

- 8.1 No.

9 **Background Papers**

- 9.1 None

10 **Appendices**

- 10.1 Appendix 1 – internal process to strengthen controls